

103D CONGRESS
1ST SESSION

S. 102

To provide for line item veto; capital gains tax reduction; enterprise zones;
raising the social security earnings limit workfare.

IN THE SENATE OF THE UNITED STATES

JANUARY 21 (legislative day, JANUARY 5), 1993

Mr. MACK (for himself, Mr. BOND, Mr. BURNS, Mr. COATS, Mr. D'AMATO, Mr. GRAMM, Mr. CRAIG, Mr. GRASSLEY, Mr. HELMS, Mr. MURKOWSKI, Mr. NICKLES, Mr. SMITH, Mr. THURMOND, Mr. GORTON, Mr. BROWN, Mr. WALLOP, Mr. KEMPTHORNE, Mr. BENNETT, Mr. LOTT, Mr. DOLE, and Mr. COVERDELL) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To provide for line item veto; capital gains tax reduction;
enterprise zones; raising the social security earnings limit
workfare.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **TITLE I—LINE-ITEM VETO**

4 **SEC. 101. ENHANCEMENT OF SPENDING CONTROL BY THE**
5 **PRESIDENT.**

6 The Impoundment Control Act of 1974 is amended
7 by adding at the end thereof the following new title:

1 “TITLE XI—LEGISLATIVE LINE ITEM VETO
2 RESCISSION AUTHORITY

3 “PART A—LEGISLATIVE LINE ITEM VETO RESCISSION
4 AUTHORITY

5 “GRANT OF AUTHORITY AND CONDITIONS

6 “SEC. 1101. (a) IN GENERAL.—(1) Notwithstanding
7 part B of title X and subject to part B of this title, the
8 President may rescind all or part of any budget authority,
9 if the President—

10 “(A) determines that—

11 “(i) such rescission would help balance the
12 Federal budget, reduce the Federal budget defi-
13 cit, or reduce the public debt;

14 “(ii) such rescission will not impair any es-
15 sential Government functions; and

16 “(iii) such rescission will not harm the na-
17 tional interest; and

18 “(B)(i) notifies the Congress of such rescission
19 by a special message not later than 20 calendar days
20 (not including Saturdays, Sundays, or holidays)
21 after the date of enactment of a regular or supple-
22 mental appropriations Act or a joint resolution mak-
23 ing continuing appropriations providing such budget
24 authority; or

1 “(ii) notifies the Congress of such rescission by
2 special message accompanying the submission of the
3 President’s budget to Congress and such rescissions
4 have not been proposed previously for that fiscal
5 year.

6 “(2) The President shall submit a separate rescission
7 message for each appropriations bill under paragraph
8 (1)(B)(ii).

9 “(b) RESCISSION EFFECTIVE UNLESS DIS-
10 APPROVED.—(1)(A) Any amount of budget authority re-
11 scinded under this title as set forth in a special message
12 by the President shall be deemed canceled unless, during
13 the period described in subparagraph (B), a rescission dis-
14 approval bill making available all of the amount rescinded
15 is enacted into law.

16 “(B) The period referred to in subparagraph (A) is—

17 “(i) a Congressional review period of 20 cal-
18 endar days of session under part B, during which
19 Congress must complete action on the rescission dis-
20 approval bill and present such bill to the President
21 for approval or disapproval;

22 “(ii) after the period provided in clause (i), an
23 additional 10 days (not including Sundays) during
24 which the President may exercise his authority to
25 sign or veto the rescission disapproval bill; and

1 “(iii) if the President vetoes the rescission dis-
 2 approval bill during the period described in clause
 3 (ii), an additional 5 calendar days of session after
 4 the date of the veto.

5 “(2) If a special message is transmitted by the Presi-
 6 dent under this section during any Congress and the last
 7 session of such Congress adjourns sine die before the expi-
 8 ration of the period described in paragraph (1)(B)—

9 “(A) the rescission shall not take effect;

10 “(B) the message shall be deemed to have been
 11 retransmitted on the first day of the succeeding
 12 Congress; and

13 “(C) the review period described in paragraph
 14 (1)(B) (with respect to such message) shall run be-
 15 ginning after such first day.

16 “DEFINITIONS

17 “SEC. 1102. For the purposes of this title, the term
 18 ‘rescission disapproval bill’ means a bill or joint resolution
 19 which only disapproves a rescission of budget authority,
 20 in whole, rescinded in a special message transmitted by
 21 the President under section 1101.

22 “PART B—CONGRESSIONAL CONSIDERATION OF
 23 LEGISLATIVE LINE ITEM VETO RESCISSIONS

24 “PRESIDENTIAL SPECIAL MESSAGE

25 “SEC. 1111. When the President rescinds any budget
 26 authority as provided in section 1101, the President shall

1 transmit to the House of Representatives and to the Sen-
2 ate a special message specifying—

3 “(1) the amount of budget authority rescinded;

4 “(2) any account, department, or establishment
5 of the Government to which such budget authority
6 is available for obligation, and the specific project or
7 governmental functions involved;

8 “(3) the reasons and justifications for the de-
9 termination to rescind budget authority pursuant to
10 section 1101(a)(1);

11 “(4) to the maximum extent practicable, the es-
12 timated fiscal, economic, and budgetary effect of the
13 rescission; and

14 “(5) all facts, circumstances, and considerations
15 relating to or bearing upon the rescission and the
16 decision to effect the rescission, and to the maxi-
17 mum extent practicable, the estimated effect of the
18 rescission upon the objects, purposes, and programs
19 for which the budget authority is provided.

20 “TRANSMISSION OF MESSAGES; PUBLICATION

21 “SEC. 1112. (a) DELIVERY TO HOUSE AND SEN-
22 ATE.—(1) Each special message transmitted under sec-
23 tions 1101 and 1111 shall be transmitted to the House
24 of Representatives and the Senate on the same day, and
25 shall be delivered to the Clerk of the House of Representa-
26 tives if the House of Representatives is not in session and

1 to the Secretary of the Senate if the Senate is not in ses-
2 sion.

3 “(2) Each special message transmitted pursuant to
4 paragraph (1) shall be referred to the appropriate commit-
5 tees of the House of Representatives and the Senate and
6 shall be printed as a document of each House.

7 “(b) PRINTING IN FEDERAL REGISTER.—A special
8 message transmitted under sections 1101 and 1111 shall
9 be printed in the first issue of the Federal Register pub-
10 lished after such transmittal.

11 “PROCEDURE IN SENATE

12 “SEC. 1113. (a) REFERRAL.—(1) Any rescission dis-
13 approval bill introduced with respect to a special message
14 shall be referred to the appropriate committees of the
15 House of Representatives or the Senate, as the case may
16 be.

17 “(2) Any rescission disapproval bill received in the
18 Senate from the House of Representatives shall be consid-
19 ered in the Senate pursuant to this section.

20 “(b) FLOOR CONSIDERATION IN THE SENATE.—

21 “(1) Debate in the Senate on any rescission dis-
22 approval bill and debatable motions and appeals in
23 connection therewith, shall be limited to not more
24 than 10 hours, with the time equally divided be-
25 tween, and controlled by, the majority leader and the
26 minority leader or their designees.

1 “(2)(A) Debate in the Senate on any debatable
2 motion or appeal in connection with such a bill shall
3 be limited to 1 hour equally divided between, and
4 controlled by, the mover and the manager of the bill,
5 except that if the manager of the bill is in favor of
6 any such motion or appeal, the time in opposition
7 thereto shall be controlled by the minority leader or
8 the minority leader’s designee.

9 “(B) Such leaders, or either of them, may, from
10 the time under their control on the passage of the
11 bill, allot additional time to any Senator during the
12 consideration of any debatable motion or appeal.

13 “(3) A motion to further limit debate shall not
14 be debatable, and a motion to recommit (except a
15 motion to recommit with instructions to report back
16 within a specified number of days, not to exceed 1,
17 not counting any day on which the Senate is not in
18 session) shall not be in order.

19 “(c) POINT OF ORDER.—(1) It shall not be in order
20 in the Senate or the House of Representatives to consider
21 any rescission disapproval bill that relates to any matter
22 other than the rescission of budget authority transmitted
23 by the President under section 1101.

1 “(2) It shall not be in order in the Senate or the
2 House of Representatives to consider any amendment to
3 a rescission disapproval bill.

4 “(3) Paragraphs (1) and (2) may be waived or sus-
5 pended in the Senate only by a vote of three-fifths of the
6 members duly chosen and sworn.”.

7 **TITLE II—CAPITAL GAINS**

8 **SEC. 201. DEDUCTION FOR CAPITAL GAINS ON CERTAIN** 9 **SMALL BUSINESS STOCK.**

10 (a) IN GENERAL.—Subchapter P of chapter 1 of the
11 Internal Revenue Code of 1986 (relating to capital gains
12 and losses) is amended by adding at the end thereof the
13 following new part:

14 **“PART VII—ENTERPRISE CAPITAL INVESTMENT** 15 **INCENTIVES**

“Sec. 1301. Deduction for gain on certain small business stock.
“Sec. 1302. Definitions and special rules.

16 **“SEC. 1301. DEDUCTION FOR GAIN ON CERTAIN SMALL** 17 **BUSINESS STOCK.**

18 “(a) GENERAL RULE.—If a taxpayer has a qualified
19 small business net capital gain for any taxable year, there
20 shall be allowed as a deduction from gross income an
21 amount equal to the sum of—

22 “(1) 50 percent of the excess (if any) of—

23 “(A) qualified small business net capital
24 gain, over

1 “(B) the amount of seed capital gain, plus
2 “(2) the seed capital gain deduction.

3 “(b) QUALIFIED SMALL BUSINESS NET CAPITAL
4 GAIN.—For purposes of this section, the term ‘qualified
5 small business net capital gain’ means the lesser of—

6 “(1) the net capital gain for the taxable year,
7 or

8 “(2) the net capital gain for the taxable year
9 determined by taking into account only gain or loss
10 from sales or exchanges of qualified small business
11 stock with a holding period of more than 5 years at
12 the time of sale or exchange.

13 “(c) SEED CAPITAL GAIN DEDUCTION.—For pur-
14 poses of this section—

15 “(1) IN GENERAL.—The term ‘seed capital gain
16 deduction’ means an amount equal to the sum of the
17 amounts determined by applying the applicable per-
18 centages to the appropriate categories of seed capital
19 gain under the table contained in paragraph (2).

20 “(2) COMPUTATION OF AMOUNT.—The seed
21 capital gain deduction shall be computed as follows:

“In the case of:	The applicable percentage is:
5-year gain	50
6-year gain	60
7-year gain	70
8-year gain	80
9-year gain	90
10-year gain	100.

1 “(3) SEED CAPITAL GAIN.—For purposes of
2 this subsection, the term ‘seed capital gain’ means
3 the lesser of—

4 “(A) the excess (if any) of—

5 “(i) the net capital gain for the tax-
6 able year, over

7 “(ii) the qualified small business net
8 capital gain for the taxable year deter-
9 mined without regard to gain or loss de-
10 scribed in subparagraph (B), or

11 “(B) the net capital gain for the taxable
12 year determined by taking into account only
13 gain or loss from sales or exchanges of stock—

14 “(i) which is qualified small business
15 stock in a corporation which is a qualified
16 small business (determined by substituting
17 ‘\$5,000,000’ for ‘\$100,000,000’ in section
18 1302(b)(1)), and

19 “(ii) with a holding period of more
20 than 5 years at the time of the sale or ex-
21 change.

22 “(4) CATEGORIES OF GAIN.—For purposes of
23 this subsection—

24 “(A) 10-YEAR GAIN.—The term ‘10-year
25 gain’ means the lesser of—

1 “(i) the seed capital gain, or

2 “(ii) the seed capital gain determined
3 by taking into account under paragraph
4 (3)(B) only gain or loss from qualified
5 small business stock with a holding period
6 of more than 10 years at the time of the
7 sale or exchange.

8 “(B) OTHER GAIN.—The terms ‘5-, 6-, 7-
9 , 8-, and 9-year gain’ mean, with respect to
10 any category, the lesser of—

11 “(i) the excess (if any) of—

12 “(I) seed capital gain, over

13 “(II) the amount determined
14 under this paragraph for categories
15 with a longer holding period, or

16 “(ii) seed capital gain determined by
17 taking into account under paragraph
18 (3)(B) only gain or loss from qualified
19 small business stock with a holding period
20 of more than 5, 6, 7, 8, or 9 years but not
21 more than 6, 7, 8, 9, or 10 years, respec-
22 tively.

23 “(d) ESTATES AND TRUSTS.—In the case of an es-
24 tate or trust, the deduction under subsection (a) shall be
25 computed by excluding the portion (if any) of the gains

1 for the taxable year from sales or exchanges of qualified
2 small business stock which, under section 652 and 662
3 (relating to inclusions of amounts in gross income of bene-
4 ficiaries of trusts), is includible by the income beneficiaries
5 as gains derived from the sale or exchange of capital as-
6 sets.

7 **“SEC. 1302. DEFINITIONS AND SPECIAL RULES.**

8 “(a) QUALIFIED SMALL BUSINESS STOCK.—For pur-
9 poses of this part—

10 “(1) IN GENERAL.—The term ‘qualified small
11 business stock’ means any stock in a corporation
12 which is originally issued after December 31, 1991,
13 if—

14 “(A) as of the date of issuance, such cor-
15 poration is a qualified small business, and

16 “(B) except as provided in subsections (d)
17 and (e), such stock is acquired by the taxpayer
18 at its original issue (directly or through an un-
19 derwriter)—

20 “(i) in exchange for money or other
21 property (not including stock), or

22 “(ii) as compensation for services
23 (other than services performed as an un-
24 derwriter of such stock).

1 “(2) 5-YEAR ACTIVE BUSINESS REQUIRE-
 2 MENT.—Stock in a corporation shall not be treated
 3 as qualified small business stock unless, during the
 4 testing period, such corporation meets the active
 5 business requirements of subsection (c).

6 “(3) CERTAIN REDEMPTIONS, EXCHANGES,
 7 ETC. DISQUALIFIED.—For purposes of paragraph
 8 (1)(B), and except as provided in subsections (d)
 9 and (e), stock shall not be treated as acquired by the
 10 taxpayer at its original issue if—

11 “(i) it is issued directly or indirectly in re-
 12 demption of, or otherwise in exchange for, stock
 13 which is not qualified small business stock, or

14 “(ii) it is issued in an exchange described
 15 in section 351 in exchange for property other
 16 than qualified small business stock, if imme-
 17 diately after the exchange, both the issuer and
 18 transferee of the stock are members of the
 19 same controlled group of corporations (as de-
 20 fined in section 1563).

21 “(b) QUALIFIED SMALL BUSINESS.—For purposes of
 22 this part—

23 “(1) IN GENERAL.—The term ‘qualified small
 24 business’ means any domestic corporation with re-
 25 spect to which the sum of—

1 “(A) the aggregate amount of money,
2 other property, and services received by the cor-
3 poration for stock, as a contribution to capital,
4 and as paid-in surplus, plus

5 “(B) the accumulated earnings and profits
6 of the corporation,
7 does not exceed \$100,000,000. The determination
8 under the preceding sentence shall be made as of the
9 time of such issuance but shall include amounts re-
10 ceived in such issuance and all prior issuances.

11 “(2) AMOUNT TAKEN INTO ACCOUNT WITH RE-
12 SPECT TO PROPERTY AND SERVICES.—For purposes
13 of paragraph (1)—

14 “(A) PROPERTY.—The amount taken into
15 account with respect to any property other than
16 money shall be an amount equal to the adjusted
17 basis of such property for determining gain, re-
18 duced (but not below zero) by any liability to
19 which the property was subject or which was
20 assumed by the corporation. The determination
21 under the preceding sentence shall be made as
22 of the time the property was received by the
23 corporation.

24 “(B) COMPENSATION FOR SERVICES.—The
25 amount taken into account with respect to stock

1 issued for services shall be the value of such
2 services.

3 “(c) ACTIVE BUSINESS REQUIREMENT.—For pur-
4 poses of this part—

5 “(1) IN GENERAL.—For purposes of subsection
6 (a)(2), the requirements of this subsection are met
7 if, during the testing period—

8 “(A) the corporation is engaged in the ac-
9 tive conduct of a trade or business, and

10 “(B) substantially all of the assets of such
11 corporation are used in the active conduct of a
12 trade or business.

13 “(2) SPECIAL RULE FOR CERTAIN ACTIVI-
14 TIES.—For purposes of paragraph (1), if, in connec-
15 tion with any future trade or business, a corporation
16 is engaged in—

17 “(A) start-up activities described in section
18 195(c)(1)(A),

19 “(B) activities resulting in the payment or
20 incurring of expenditures which may be treated
21 as research and experimental expenditures
22 under section 174, or

23 “(C) activities with respect to in-house re-
24 search expenses described in section 41(b)(4),

1 such corporation shall be treated with respect to
2 such activities as engaged in (and assets used in
3 such activities shall be treated as used in) the active
4 conduct of a trade or business. Any determination
5 under this paragraph shall be made without regard
6 to whether a corporation has any gross income from
7 such activities at the time of the determination.

8 “(3) STOCK IN OTHER CORPORATIONS.—

9 “(A) LOOK-THRU IN CASE OF SUBSIDI-
10 ARIES.—For purposes of this subsection, stock
11 and debt in any subsidiary corporation shall be
12 disregarded and the parent corporation shall be
13 deemed to own its ratable share of the subsidi-
14 ary’s assets, and to conduct its ratable share of
15 the subsidiary’s activities.

16 “(B) PORTFOLIO STOCK.—A corporation
17 shall be treated as failing to meet the require-
18 ments of paragraph (1) if, at any time during
19 the testing period, more than 10 percent of the
20 value of its assets (in excess of liabilities) con-
21 sist of stock in other corporations which are not
22 subsidiaries of such corporation.

23 “(C) SUBSIDIARY.—For purposes of this
24 paragraph, a corporation shall be considered a
25 subsidiary if the parent owns at least 50 per-

1 cent of the combined voting power of all classes
2 of stock entitled to vote, or at least 50 percent
3 in value of all outstanding stock of such cor-
4 poration.

5 “(4) WORKING CAPITAL.—For purposes of
6 paragraph (1)(B), any assets which—

7 “(A) are held for investment, and

8 “(B) are to be used to finance future re-
9 search and experimentation or working capital
10 needs of the corporation,

11 shall be treated as used in the active conduct of a
12 trade or business.

13 “(5) MAXIMUM REAL ESTATE HOLDINGS.—A
14 corporation shall not be treated as meeting the re-
15 quirements of paragraph (1) if, at any time during
16 the testing period, more than 10 percent of the total
17 value of its assets is real property which is not used
18 in the active conduct of a trade or business. For
19 purposes of the preceding sentence, the ownership
20 of, dealing in, or renting of real property shall not
21 be treated as the active conduct of a trade or busi-
22 ness.

23 “(6) SMALL BUSINESS INVESTMENT COMPA-
24 NIES.—Paragraph (1) shall not apply to any small

1 business investment company operating under the
2 Small Business Investment Act of 1958.

3 “(7) COMPUTER SOFTWARE ROYALTIES.—For
4 purposes of paragraph (1), rights to computer soft-
5 ware which produces income described in section
6 543(d) shall be treated as an asset used in the active
7 conduct of a trade or business.

8 “(8) TESTING PERIOD.—For purposes of this
9 section, the term ‘testing period’ means, with respect
10 to any stock held by a taxpayer, the 5-year period
11 beginning with the first day of the taxpayer’s hold-
12 ing period for such stock.

13 “(d) SPECIAL RULES FOR OPTIONS, WARRANTS, AND
14 CERTAIN CONVERTIBLE INVESTMENTS.— For purposes
15 of this part—

16 “(1) IN GENERAL.—In the case of stock which
17 is acquired by the taxpayer through the exercise of
18 an applicable option or warrant, through the conver-
19 sion of convertible debt, or in exchange for securities
20 of the corporation in a transaction described in sec-
21 tion 368—

22 “(A) such stock shall be treated as ac-
23 quired by the taxpayer at original issue, and

24 “(B) such stock shall be treated as having
25 been held during the period such option, war-

1 rant, or debt was held, or such security was
2 outstanding.

3 “(2) ISSUE PRICE FOR CONVERTIBLE DEBT OR
4 SECURITY.—For purposes of section 1302(b)(1) and
5 notwithstanding section 1302(b)(2), in the case of a
6 debt instrument converted to stock, or stock issued
7 in exchange for securities in a transaction described
8 in section 368, such stock shall be treated as issued
9 for an amount equal to the sum of—

10 “(A) the principal amount of the debt or
11 security as of the time of the conversion or ex-
12 change, and

13 “(B) accrued but unpaid interest on such
14 loan or security.

15 “(3) APPLICABLE OPTION OR WARRANT.—For
16 purposes of this subsection, the term ‘applicable op-
17 tion or warrant’ means an option or warrant
18 which—

19 “(A) was issued in exchange for the per-
20 formance of services for the corporation issuing
21 it, and

22 “(B) is nontransferrable.

23 “(e) CERTAIN TAX-FREE AND OTHER TRANS-
24 FERS.—For purposes of this part—

1 “(1) IN GENERAL.—In the case of a transfer of
2 stock to which this subsection applies, the transferee
3 shall be treated as—

4 “(A) having acquired such stock in the
5 same manner as the transferor, and

6 “(B) having held such stock during any
7 continuous period immediately preceding the
8 transfer during which it was held (or treated as
9 held under this subsection) by the transferor.

10 “(2) TRANSFERS TO WHICH SUBSECTION AP-
11 PLIES.—This subsection shall apply to any trans-
12 fer—

13 “(A) by gift,

14 “(B) at death,

15 “(C) to the extent that the basis of the
16 property in the hands of the transferee is deter-
17 mined by reference to the basis of the property
18 in the hands of the transferor by reason of sec-
19 tion 334(b), 723, or 732, or

20 “(D) of qualified small business stock for
21 other qualified small business stock in a trans-
22 action described in section 351 or a reorganiza-
23 tion described in section 368.

24 “(3) INCORPORATIONS AND REORGANIZATIONS
25 INVOLVING NONQUALIFIED STOCK.—

1 “(A) IN GENERAL.—In the case of a trans-
2 action described in section 351 or a reorganiza-
3 tion described in section 368, if a qualified
4 small business stock is transferred for other
5 stock which is not qualified small business
6 stock, such transfer shall be treated as a trans-
7 fer to which this subsection applies solely with
8 respect to the person receiving such other stock.

9 “(B) LIMITATION.—This part shall apply
10 to the sale or exchange of stock treated as
11 qualified small business stock by reason of sub-
12 paragraph (A) only to the extent of the gain (if
13 any) which would have been recognized at the
14 time of the transfer described in subparagraph
15 (A) if section 351 or 368 had not applied at
16 such time.

17 “(C) SUCCESSIVE APPLICATION.—For pur-
18 poses of this paragraph, stock treated as quali-
19 fied small business stock under subparagraph
20 (A) shall be so treated for subsequent trans-
21 actions or reorganizations, except that the limi-
22 tation of subparagraph (B) shall be applied as
23 of the time of the first transfer to which sub-
24 paragraph (A) applied.

1 “(D) CONTROL TEST.—Except in the case
2 of a transaction described in section 368, this
3 paragraph shall apply only if, immediately after
4 the transaction, the corporation issuing the
5 stock owns directly or indirectly stock rep-
6 resenting control (within the meaning of section
7 368(c)) of the corporation whose stock was
8 transferred.

9 “(f) STOCK EXCHANGED FOR PROPERTY.—For pur-
10 poses of this part, in the case where the taxpayer transfers
11 property (other than money or stock) to a corporation in
12 exchange for stock in such corporation—

13 “(1) such stock shall be treated as having been
14 acquired by the taxpayer on the date of such ex-
15 change, and

16 “(2) the basis of such stock in the hands of the
17 taxpayer shall be treated as equal to the fair market
18 value of the property exchanged.

19 “(g) PASS-THRU ENTITIES.—For purposes of this
20 part, any gain or loss of a pass-thru entity which is treated
21 for purposes of this subtitle as a gain or loss of any person
22 holding an interest in such entity shall retain its character
23 as qualified small business or seed capital gain or loss in
24 the hands of such person.

1 “(h) INDEXING.—In the case of any stock issued in
 2 a calendar year after 1992, the \$5,000,000 and
 3 \$100,000,000 amounts in section 1301(c)(3)(B)(i) and
 4 subsection (b)(1) of this section shall be increased by an
 5 amount equal to—

6 “(1) such dollar amount, multiplied by

7 “(2) the cost-of-living adjustment determined
 8 under section 1(f)(3) for such calendar year by sub-
 9 stituting ‘1991’ for ‘1987’ in subparagraph (B)
 10 thereof.”.

11 (b) MAXIMUM 14 PERCENT TAX RATE.—

12 (1) INDIVIDUALS.—Section 1(h) of such Code
 13 (relating to maximum capital gains rate) is amended
 14 to read as follows:

15 “(h) MAXIMUM CAPITAL GAINS RATE.—

16 “(1) IN GENERAL.—If a taxpayer has a net
 17 capital gain for any taxable year, then the tax im-
 18 posed by this section shall not exceed the sum of—

19 “(A) a tax computed at the rate and in the
 20 same manner as if this subsection had not been
 21 enacted on the greater of—

22 “(i) taxable income reduced by the
 23 amount of the net capital gain, or

24 “(ii) the amount of taxable income
 25 taxed at a rate below 28 percent, plus

1 “(B) a tax of 28 percent of the amount of
2 taxable income in excess of the amount deter-
3 mined under subparagraph (A).

4 “(2) SPECIAL RULE WHERE TAXPAYER HAS
5 QUALIFIED SMALL BUSINESS NET CAPITAL OR SEED
6 CAPITAL GAIN.—

7 “(A) IN GENERAL.—If a taxpayer has
8 qualified small business net capital gain or seed
9 capital gain for any taxable year, then the tax
10 imposed by this section shall not exceed the
11 lesser of—

12 “(i) the amount determined under
13 paragraph (1), or

14 “(ii) the sum of—

15 “(I) the amount determined
16 under paragraph (1) without taking
17 into account qualified small business
18 net capital gain and seed capital gain
19 for purposes of subparagraphs (A)
20 and (B) thereof, plus

21 “(II) 14 percent of the qualified
22 small business net capital gain and
23 seed capital gain.

24 “(B) DEFINITIONS.—For purposes of this
25 paragraph, the terms ‘qualified small business

1 net capital gain' and 'seed capital gain' have
2 the meanings given such terms by section 1301
3 (b) and (c), respectively.”.

4 (2) CORPORATIONS.—Section 1201(a) of such
5 Code (relating to alternative tax for corporations) is
6 amended—

7 (A) by inserting “or the corporation has a
8 qualified small business net capital gain or seed
9 capital gain” before “, then”, and

10 (B) by striking paragraph (2) and insert-
11 ing:

12 “(2) a tax equal to the sum of—

13 “(A) 34 percent of the sum of the net cap-
14 ital gain, reduced by qualified small business
15 net capital gain and seed capital gain, plus

16 “(B) 17 percent of the qualified small
17 business net capital gain and seed capital
18 gain.”.

19 (c) TREATMENT AS PREFERENCE ITEM FOR MINI-
20 MUM TAX.—Section 57(a) of such Code (relating to items
21 of tax preference under the alternative minimum tax) is
22 amended by adding at the end thereof the following new
23 paragraph:

24 “(8) CAPITAL GAINS ON SALE OF CERTAIN
25 SMALL BUSINESS STOCK.—An amount equal to the

1 deduction for the taxable year determined under sec-
2 tion 1301(a)(1).”.

3 (d) LOSSES ON SMALL BUSINESS STOCK.—Section
4 1244(c)(3)(A) of such Code (defining small business cor-
5 poration) is amended by striking “\$1,000,000” and insert-
6 ing “\$5,000,000 (adjusted at the same time and manner
7 as under section 1302(g))”.

8 (e) CONFORMING AMENDMENTS.—

9 (1) Section 62(a) of such Code is amended by
10 adding after paragraph (13) the following new para-
11 graph:

12 “(14) LONG-TERM CAPITAL GAINS.—The de-
13 duction allowed by section 1301.”.

14 (2) Subparagraph (B) of section 170(e)(1) of
15 such Code is amended by inserting “(or, in the case
16 of qualified small business stock under section 1301,
17 50 percent of the amount)” after “the amount”.

18 (3) Section 172(d)(2) of such Code is amended
19 to read as follows:

20 “(2) CAPITAL GAINS AND LOSSES OF TAX-
21 PAYERS OTHER THAN CORPORATIONS.—In the case
22 of a taxpayer other than a corporation—

23 “(A) the amount deductible on account of
24 losses from sales or exchanges of capital assets
25 shall not exceed the amount includible on ac-

1 count of gains from sales or exchanges of cap-
 2 ital assets; and

3 “(B) the deduction for long-term capital
 4 gains provided by section 1301 shall not be al-
 5 lowed.”.

6 (4) Subparagraph (B) of section 172(d)(4) of
 7 such Code is amended by inserting “, (2)(B),” after
 8 “paragraph (1)”.

9 (5)(A) Section 220 of such Code is amended to
 10 read as follows:

11 **“SEC. 220. CROSS REFERENCES.**

12 “(1) For deduction for long-term capital gains
 13 in the case of sale of qualified small business stock,
 14 see section 1301.

15 “(2) For deductions in respect of a decedent,
 16 see section 691.”.

17 (B) The table of sections for part VII of sub-
 18 chapter B of chapter 1 of such Code is amended by
 19 striking out “reference” in the item relating to sec-
 20 tion 220 and inserting “references”.

21 (6) Paragraph (4) of section 642(c) of such
 22 Code is amended to read as follows:

23 “(4) ADJUSTMENTS.—To the extent that the
 24 amount otherwise allowable as a deduction under
 25 this subsection consists of gain from the sale or ex-

1 change of qualified small business stock held for
2 more than 5 years, proper adjustment shall be made
3 for any deduction allowable to the estate or trust
4 under section 1301 (relating to deduction for excess
5 of capital gains over capital losses). In the case of
6 a trust, the deduction allowed by this subsection
7 shall be subject to section 681 (relating to unrelated
8 business income).”.

9 (7) Paragraph (3) of section 643(a) of such
10 Code is amended by adding at the end thereof the
11 following new sentence: “The deduction under sec-
12 tion 1301 (relating to deduction for gain on quali-
13 fied small business stock) shall not be taken into ac-
14 count.”.

15 (8) Paragraph (4) of section 691(c) of such
16 Code is amended by striking out “1(h), 1201, and
17 1211” and inserting in lieu thereof “1(h), 1201,
18 1211, and 1301, and for purposes of section
19 57(a)(8)”.

20 (9) Clause (iii) of section 852(b)(3)(D) of such
21 Code is amended by striking out “66 percent” and
22 inserting “the rate differential portion (within the
23 meaning of section 904(b)(3)(E))”.

24 (10) The second sentence of paragraph (2) of
25 section 871(a) of such Code is amended by inserting

1 “such gains and losses shall be determined without
2 regard to section 1301 (relating to deduction for
3 qualified small business net capital gains) and” after
4 “except that”.

5 (11) Section 1402(i)(1) of such Code is amend-
6 ed to read as follows:

7 “(1) IN GENERAL.—In determining the net
8 earnings from self-employment of any options dealer
9 or commodities dealer—

10 “(A) notwithstanding subsection (a)(3)(A),
11 there shall not be excluded any gain or loss (in
12 the normal course of the taxpayer’s activity of
13 dealing in or trading section 1256 contracts)
14 from section 1256 contracts or property related
15 to such contracts, and

16 “(B) the deduction provided by section
17 1301 shall not apply.”.

18 (12) Section 1445(e)(1) of such Code is amend-
19 ed by striking out “34 percent (or, to the extent pro-
20 vided in regulations, 28 percent)” and inserting “34
21 percent (or, to the extent provided in regulations,
22 the alternative tax rate determined under section
23 904(b)(3)(E)(iii))”.

24 (f) EFFECTIVE DATE.—

1 (1) IN GENERAL.—The amendments made by
2 this section shall apply to stock issued after Decem-
3 ber 31, 1993.

4 (2) APPLICATION OF TAX INCENTIVE TO CUR-
5 RENT STOCK HOLDINGS OF INVESTORS.—

6 (A) IN GENERAL.—If—

7 (i) a taxpayer holds any stock on any
8 date on or after the date determined under
9 paragraph (1) which, at the time it was is-
10 sued, would be treated as qualified small
11 business stock (as defined in section
12 1302(a) of the Internal Revenue Code of
13 1986) without regard to the time it was is-
14 sued, and

15 (ii) the value of such stock on such
16 date exceeds its adjusted basis,

17 the taxpayer may elect to treat such stock as
18 having been sold on such date for an amount
19 equal to its value on such date (and as having
20 been reacquired on such date for an amount
21 equal to such value). The gain from such sale
22 shall be treated as received or accrued (and the
23 holding period of the reacquired stock shall be
24 treated as beginning) on such date. For pur-
25 poses of applying section 1301 of such Code,

1 such stock shall be treated after such reacquisi-
 2 tion as acquired in the same manner and at the
 3 same time as the original acquisition and the
 4 requirement of section 1302(a)(1) that the
 5 stock must have been issued after December
 6 31, 1993, shall not apply.

7 (B) ELECTION.—An election under sub-
 8 paragraph (A) with respect to any stock shall
 9 be made in such manner as the Secretary may
 10 prescribe. Such an election, once made with re-
 11 spect to any stock, shall be irrevocable.

12 **TITLE III—SOCIAL SECURITY** 13 **EARNINGS TEST**

14 **SEC. 301. RETIREMENT TEST EXEMPT AMOUNT INCREASED.**

15 (a) IN GENERAL.—Section 203(f)(8)(D) of the Social
 16 Security Act (42 U.S.C. 403(f)(8)(D)) is amended to read
 17 as follows:

18 “(D) Notwithstanding any other provision of this
 19 subsection, the exempt amount which is applicable to an
 20 individual who has attained retirement age (as defined in
 21 section 216(l)) before the close of the taxable year involved
 22 shall be—

23 “(i) \$925 for each month of any taxable year
 24 ending after 1992 and before 1994,

1 “(ii) \$1,020 for each month of any taxable year
2 ending after 1993 and before 1995,

3 “(iii) \$1,130 for each month of any taxable
4 year ending after 1994 and before 1996,

5 “(iv) \$1,450 for each month of any taxable year
6 ending after 1995 and before 1997,

7 “(v) \$1,750 for each month of any taxable year
8 ending after 1996 and before 1998,

9 “(vi) \$2,250 for each month of any taxable year
10 ending after 1997 and before 1999,

11 “(vii) \$2,670 for each month of any taxable
12 year ending after 1998 and before 2000,

13 “(viii) \$3,500 for each month of any taxable
14 year ending after 1999 and before 2001, and

15 “(ix) \$4,250 for each month of any taxable year
16 ending after 2000 and before 2002.”.

17 (b) CONFORMING AMENDMENT.—Section
18 203(f)(8)(B)(ii)(II) of such Act (42 U.S.C.
19 403(f)(8)(B)(ii)(II)) is amended by striking “for the cal-
20 endar year before the most recent calendar year in which
21 an increase in the exempt amount was enacted or a deter-
22 mination resulting in such an increase was made under
23 subparagraph (A)” and inserting “for the second calendar
24 year before the calendar year in which the determination
25 under subparagraph (A) is made”.

1 (c) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to taxable years ending after De-
 3 cember 31, 1992.

4 **SEC. 302. REDUCTION FACTOR WITH RESPECT TO CERTAIN**
 5 **EARNINGS LOWERED TO 25 PERCENT.**

6 (a) IN GENERAL.—Section 203(f)(3) of the Social
 7 Security Act (42 U.S.C. 403(f)(3)) is amended by striking
 8 “33 $\frac{1}{3}$ percent” and all that follows through “paragraph
 9 (8)” and inserting “equal to the sum of (A) 25 percent
 10 of so much of his earnings for such year in excess of the
 11 product of the applicable exempt amount as determined
 12 under paragraph (8) as does not exceed \$5,000, and (B)
 13 33 $\frac{1}{3}$ percent of so much of such earnings in excess of
 14 such product as exceeds \$5,000,”.

15 (b) EFFECTIVE DATE.—The amendment made by
 16 subsection (a) shall apply to taxable years beginning after
 17 December 31, 1997.

18 **TITLE IV—URBAN TAX ENTER-**
 19 **PRISE ZONES AND RURAL DE-**
 20 **VELOPMENT INVESTMENT**
 21 **ZONES**

22 **SEC. 401. STATEMENT OF PURPOSE.**

23 It is the purpose of this title to establish a demonstra-
 24 tion program of providing incentives for the creation of
 25 tax enterprise zones in order—

1 (1) to revitalize economically and physically dis-
 2 tressed areas, primarily by encouraging the forma-
 3 tion of new businesses and the retention and expan-
 4 sion of existing businesses,

5 (2) to promote meaningful employment for tax
 6 enterprise zone residents, and

7 (3) to encourage individuals to reside in the tax
 8 enterprise zones in which they are employed.

9 **Subtitle A—Designation and Tax** 10 **Incentives**

11 **SEC. 411. DESIGNATION AND TREATMENT OF URBAN TAX** 12 **ENTERPRISE ZONES AND RURAL DEVELOP-** 13 **MENT INVESTMENT ZONES.**

14 (a) IN GENERAL.—Chapter 1 of the Internal Reve-
 15 nue Code of 1986 (relating to normal taxes and surtaxes)
 16 is amended by inserting after subchapter T the following
 17 new subchapter:

18 **“Subchapter U—Designation and Treatment** 19 **of Tax Enterprise Zones**

“Part I. Designation of tax enterprise zones.

“Part II. Incentives for tax enterprise zones.

20 **“PART I—DESIGNATION OF TAX ENTERPRISE** 21 **ZONES**

“Sec. 1391. Designation procedure.

“Sec. 1392. Eligibility and selection criteria.

“Sec. 1393. Definitions and special rules.

1 **“SEC. 1391. DESIGNATION PROCEDURE.**

2 “(a) IN GENERAL.—For purposes of this title, the
3 term ‘tax enterprise zone’ means any area which is, under
4 this part—

5 “(1) nominated by 1 or more local governments
6 and the State in which it is located for designation
7 as a tax enterprise zone, and

8 “(2) designated by—

9 “(A) the Secretary of Housing and Urban
10 Development in the case of an urban tax enter-
11 prise zone, or

12 “(B) the Secretary of Agriculture, in con-
13 sultation with the Secretary of Commerce, in
14 the case of a rural development investment
15 zone.

16 “(b) NUMBER OF DESIGNATIONS.—

17 “(1) AGGREGATE LIMIT.—The appropriate Sec-
18 retaries may designate in the aggregate 50 nomi-
19 nated areas as tax enterprise zones under this sec-
20 tion, subject to the availability of eligible nominated
21 areas. Not more than 25 urban tax enterprise zones
22 may be designated and not more than 25 rural de-
23 velopment investment zones may be designated.
24 Such designations may be made only during cal-
25 endar years after 1992 and before 1998.

26 “(2) ANNUAL LIMITS.—

1 “(A) URBAN TAX ENTERPRISE ZONES.—

2 The number of urban tax enterprise zones des-
3 ignated under paragraph (1)—

4 “(i) before 1995 shall not exceed 8,

5 “(ii) before 1996 shall not exceed 15,

6 and

7 “(iii) before 1997 shall not exceed 21.

8 “(B) RURAL DEVELOPMENT INVESTMENT

9 ZONES.—The number of rural development in-
10 vestment zones designated under paragraph
11 (1)—

12 “(i) before 1995 shall not exceed 8,

13 “(ii) before 1996 shall not exceed 15,

14 and

15 “(iii) before 1997 shall not exceed 21.

16 “(3) ADVANCE DESIGNATIONS PERMITTED.—

17 For purposes of this subchapter, a designation dur-
18 ing any calendar year shall be treated as made on
19 January 1 of the following calendar year if the ap-
20 propriate Secretary, in making such designation,
21 specifies that such designation is effective as of such
22 January 1.

23 “(c) LIMITATIONS ON DESIGNATIONS.—The appro-
24 priate Secretary may not make any designation under sub-
25 section (a) unless—

1 “(1) the local governments and the State in
2 which the nominated area is located have the au-
3 thority—

4 “(A) to nominate the area for designation
5 as a tax enterprise zone, and

6 “(B) to provide assurances satisfactory to
7 the appropriate Secretary that the commit-
8 ments under section 1392(c) will be fulfilled,

9 “(2) a nomination of the area is submitted
10 within a reasonable time before the calendar year for
11 which designation as a tax enterprise zone is sought
12 (or, if later, a reasonable time after the date of the
13 enactment of this subchapter),

14 “(3) the appropriate Secretary determines that
15 any information furnished is reasonably accurate,
16 and

17 “(4) the State and local governments certify
18 that no portion of the area nominated is already in-
19 cluded in a tax enterprise zone or in an area other-
20 wise nominated to be a tax enterprise zone.

21 “(d) PERIOD FOR WHICH DESIGNATION IS IN EF-
22 fect.—

23 “(1) IN GENERAL.—Any designation of an area
24 as a tax enterprise zone shall remain in effect during

1 the period beginning on the date of the designation
 2 and ending on the earliest of—

3 “(A) December 31 of the 15th calendar
 4 year following the calendar year in which such
 5 date occurs,

6 “(B) the termination date designated by
 7 the State and local governments as provided for
 8 in their nomination, or

9 “(C) the date the appropriate Secretary re-
 10 vokes the designation under paragraph (2).

11 “(2) REVOCATION OF DESIGNATION.—

12 “(A) IN GENERAL.—The appropriate Sec-
 13 retary shall revoke the designation of an area
 14 as a tax enterprise zone if such Secretary deter-
 15 mines that the local government or the State in
 16 which it is located—

17 “(i) has modified the boundaries of
 18 the area, or

19 “(ii) is not complying substantially
 20 with the State and local commitments pur-
 21 suant to section 1392(c).

22 “(B) APPLICABLE PROCEDURES.—A des-
 23 ignation may be revoked by the appropriate
 24 Secretary under subparagraph (A) only after a

1 hearing on the record involving officials of the
2 State or local government involved.

3 **“SEC. 1392. ELIGIBILITY AND SELECTION CRITERIA.**

4 “(a) IN GENERAL.—The appropriate Secretary may
5 make a designation of any nominated area under section
6 1391 only on the basis of the eligibility and selection cri-
7 teria set forth in this section.

8 “(b) ELIGIBILITY CRITERIA.—

9 “(1) URBAN TAX ENTERPRISE ZONES.—A nom-
10 inated area which is not a rural area shall be eligible
11 for designation under section 1391 only if it meets
12 the following criteria:

13 “(A) POPULATION.—The nominated area
14 has a population (as determined by the most re-
15 cent census data available) of not less than
16 4,000.

17 “(B) DISTRESS.—The nominated area is
18 one of pervasive poverty, unemployment, and
19 general distress.

20 “(C) SIZE.—The nominated area—

21 “(i) does not exceed 20 square miles,

22 “(ii) has a boundary which is continu-
23 ous, or consists of not more than 3 non-
24 contiguous parcels within the same metro-
25 politan area,

1 “(iii) is located entirely within 1
2 State, and

3 “(iv) does not include any portion of
4 a central business district (as such term is
5 used for purposes of the most recent Cen-
6 sus of Retail Trade).

7 “(D) UNEMPLOYMENT RATE.—The unem-
8 ployment rate (as determined by the appro-
9 priate available data) is not less than 1.5 times
10 the national unemployment rate.

11 “(E) POVERTY RATE.—The poverty rate
12 (as determined by the most recent census data
13 available) for not less than 90 percent of the
14 population census tracts (or where not tracted,
15 the equivalent county divisions as defined by
16 the Bureau of the Census for the purposes of
17 defining poverty areas) within the nominated
18 area is not less than 20 percent.

19 “(F) COURSE OF ACTION.—There has been
20 adopted for the nominated area a course of ac-
21 tion which meets the requirements of subsection
22 (c).

23 “(2) RURAL DEVELOPMENT INVESTMENT
24 ZONES.—A nominated area which is a rural area

1 shall be eligible for designation under section 1391
2 only if it meets the following criteria:

3 “(A) POPULATION.—The nominated area
4 has a population (as determined by the most re-
5 cent census data available) of not less than
6 1,000.

7 “(B) DISTRESS.—The nominated area is
8 one of general distress.

9 “(C) SIZE.—The nominated area—

10 “(i) does not exceed 10,000 square
11 miles,

12 “(ii) consists of areas within not more
13 than 4 contiguous counties,

14 “(iii) has a boundary which is contin-
15 uous, or consists of not more than 3 non-
16 contiguous parcels, and

17 “(iv) is located entirely within 1
18 State.

19 “(D) ADDITIONAL CRITERIA.—Not less
20 than 2 of the following criteria:

21 “(i) UNEMPLOYMENT RATE.—The cri-
22 terion set forth in paragraph (1)(D).

23 “(ii) POVERTY RATE.—The criterion
24 set forth in paragraph (1)(E).

1 “(iii) JOB LOSS.—The amount of
 2 wages attributable to employment in the
 3 area, and subject to tax under section
 4 3301 during the preceding calendar year,
 5 is not more than 95 percent of such wages
 6 during the 5th preceding calendar year.

7 “(iv) OUT-MIGRATION.—The popu-
 8 lation of the area decreased (as determined
 9 by the most recent census data available)
 10 by 10 percent or more between 1980 and
 11 1990.

12 “(E) COURSE OF ACTION.—There has been
 13 adopted for the nominated area a course of ac-
 14 tion which meets the requirements of subsection
 15 (c).

16 “(3) AREAS WITHIN INDIAN RESERVATIONS IN-
 17 ELIGIBLE.—A nominated area shall not be eligible
 18 for designation under section 1391 if any portion of
 19 such area is within an Indian reservation.

20 “(c) REQUIRED STATE AND LOCAL COURSE OF AC-
 21 TION.—

22 “(1) IN GENERAL.—No nominated area may be
 23 designated as a tax enterprise zone unless the local
 24 government and the State in which it is located
 25 agree in writing that, during any period during

1 which the area is a tax enterprise zone, the govern-
2 ments will follow a specified course of action de-
3 signed to reduce the various burdens borne by em-
4 ployers or employees in the area.

5 “(2) COURSE OF ACTION.—The course of action
6 under paragraph (1) may be implemented by both
7 governments and private nongovernmental entities,
8 may not be funded from proceeds of any Federal
9 program (other than discretionary proceeds), and
10 may include—

11 “(A) a certification by the State insurance
12 commissioner (or similar State official) that
13 basic commercial property insurance of a type
14 comparable to that insurance generally in force
15 in urban or rural areas, whichever is applicable,
16 throughout the State is available to businesses
17 within the tax enterprise zone,

18 “(B) a reduction of tax rates or fees apply-
19 ing within the tax enterprise zone,

20 “(C) an increase in the level, or efficiency
21 of delivery, of local public services within the
22 tax enterprise zone,

23 “(D) actions to reduce, remove, simplify,
24 or streamline government paperwork require-
25 ments applicable within the tax enterprise zone,

1 “(E) the involvement in the program by
2 public authorities or private entities, organiza-
3 tions, neighborhood associations, and commu-
4 nity groups, particularly those within the nomi-
5 nated area, including a written commitment to
6 provide jobs and job training for, and technical,
7 financial, or other assistance to, employers, em-
8 ployees, and residents of the nominated area,

9 “(F) the giving of special preference to
10 contractors owned and operated by members of
11 any socially and economically disadvantaged
12 group (within the meaning of section 8(a) of
13 the Small Business Act (15 U.S.C. 637(a)),

14 “(G) the gift (or sale at below fair market
15 value) of surplus land in the tax enterprise zone
16 to neighborhood organizations agreeing to oper-
17 ate a business on the land,

18 “(H) the establishment of a program
19 under which employers within the tax enterprise
20 zone may purchase health insurance for their
21 employees on a pooled basis,

22 “(I) the establishment of a program to en-
23 courage local financial institutions to satisfy
24 their obligations under the Community Rein-
25 vestment Act of 1977 (12 U.S.C. 2901 et seq.)

1 by making loans to enterprise zone businesses,
 2 with emphasis on startup and other small-busi-
 3 ness concerns (as defined in section 3(a) of the
 4 Small Business Act (15 U.S.C. 632(a)),

5 “(J) the giving of special preference to
 6 qualified low-income housing projects located in
 7 tax enterprise zones, in the allocation of the
 8 State housing credit ceiling applicable under
 9 section 42, and

10 “(K) the giving of special preference to fa-
 11 cilities located in tax enterprise zones, in the al-
 12 location of the State ceiling on private activity
 13 bonds applicable under section 146.

14 “(3) RECOGNITION OF PAST EFFORTS.—In
 15 evaluating courses of action agreed to by any State
 16 or local government, the appropriate Secretary shall
 17 take into account the past efforts of the State or
 18 local government in reducing the various burdens
 19 borne by employers and employees in the area in-
 20 volved.

21 “(4) PROHIBITION OF ASSISTANCE FOR BUSI-
 22 NESS RELOCATIONS.—

23 “(A) IN GENERAL.—The course of action
 24 implemented under paragraph (1) may not in-

1 clude any action to assist any establishment in
2 relocating from one area to another area.

3 “(B) EXCEPTION.—The limitation estab-
4 lished in subparagraph (A) shall not be con-
5 strued to prohibit assistance for the expansion
6 of an existing business entity through the estab-
7 lishment of a new branch, affiliate, or subsidi-
8 ary if—

9 “(i) the establishment of the new
10 branch, affiliate, or subsidiary will not re-
11 sult in an increase in unemployment in the
12 area of original location or in any other
13 area where the existing business entity
14 conducts business operations, and

15 “(ii) there is no reason to believe that
16 the new branch, affiliate, or subsidiary is
17 being established with the intention of clos-
18 ing down the operations of the existing
19 business entity in the area of its original
20 location or in any other area where the ex-
21 isting business entity conducts business op-
22 erations.

23 “(d) SELECTION CRITERIA.—From among the nomi-
24 nated areas eligible for designation under subsection (b)
25 by the appropriate Secretary, such appropriate Secretary

1 shall make designations of tax enterprise zones on the
2 basis of the following factors (each of which is to be given
3 equal weight):

4 “(1) STATE AND LOCAL COMMITMENTS.—The
5 strength and quality of the commitments which have
6 been promised as part of the course of action rel-
7 ative to the fiscal ability of the nominating State
8 and local governments.

9 “(2) IMPLEMENTATION OF COURSE OF AC-
10 TION.—The effectiveness and enforceability of the
11 guarantees that the course of action will actually be
12 carried out, including the specificity with which the
13 commitments under paragraph (1) are described in
14 order that the applicable Secretary will be better
15 able to determine annually under section
16 1391(d)(2)(A)(ii) whether the commitments are
17 being carried out.

18 “(3) PRIVATE COMMITMENTS.—The level of
19 commitments by private entities of additional re-
20 sources and contributions to the economy of the
21 nominated area, including the creation of new or ex-
22 panded business activities.

23 “(4) AVERAGE RANKINGS.—The average rank-
24 ing with respect to—

1 “(A) the criteria set forth in subpara-
2 graphs (D) and (E) of subsection (b)(1), in the
3 case of an area which is not a rural area, or

4 “(B) the 2 criteria set forth in subsection
5 (b)(2)(D) that give the area a higher average
6 ranking, in the case of a rural area.

7 “(5) REVITALIZATION POTENTIAL.—The poten-
8 tial for the revitalization of the nominated area as
9 a result of zone designation, taking into account
10 particularly the number of jobs to be created and re-
11 tained.

12 **“SEC. 1393. DEFINITIONS AND SPECIAL RULES.**

13 For purposes of this subchapter—

14 “(1) URBAN TAX ENTERPRISE ZONE.—The
15 term ‘urban tax enterprise zone’ means a tax enter-
16 prise zone which meets the requirements of section
17 1392(b)(1).

18 “(2) RURAL DEVELOPMENT INVESTMENT
19 ZONE.—The term ‘rural development investment
20 zone’ means a tax enterprise zone which meets the
21 requirements of section 1392(b)(2).

22 “(3) GOVERNMENTS.—If more than 1 local gov-
23 ernment seeks to nominate an area as a tax enter-
24 prise zone, any reference to, or requirement of, this
25 subchapter shall apply to all such governments.

1 “(4) LOCAL GOVERNMENT.—The term ‘local
2 government’ means—

3 “(A) any county, city, town, township, par-
4 ish, village, or other general purpose political
5 subdivision of a State, and

6 “(B) any combination of political subdivi-
7 sions described in subparagraph (A) recognized
8 by the appropriate Secretary.

9 “(5) NOMINATED AREA.—The term ‘nominated
10 area’ means an area which is nominated by 1 or
11 more local governments and the State in which it is
12 located for designation as a tax enterprise zone
13 under this subchapter.

14 “(6) RURAL AREA.—The term ‘rural area’
15 means any area which is—

16 “(A) outside of a metropolitan statistical
17 area (within the meaning of section
18 143(k)(2)(B)), or

19 “(B) determined by the Secretary of Agri-
20 culture, after consultation with the Secretary of
21 Commerce, to be a rural area.

22 “(7) APPROPRIATE SECRETARY.—The term ‘ap-
23 propriate Secretary’ means—

1 “(A) the Secretary of Housing and Urban
2 Development in the case of urban tax enterprise
3 zones, and

4 “(B) the Secretary of Agriculture in the
5 case of rural development investment zones.

6 “(8) STATE-CHARTERED DEVELOPMENT COR-
7 PORATIONS.—An area shall be treated as nominated
8 by a State and a local government if it is nominated
9 by an economic development corporation chartered
10 by the State.

11 **“PART II—INCENTIVES FOR TAX ENTERPRISE**

12 **ZONES**

 “SUBPART A. Enterprise zone employment credit.

 “SUBPART B. Investment incentives.

 “SUBPART C. Regulations.

13 **“Subpart A—Enterprise Zone Employment Credit**

 “Sec. 1394. Enterprise zone employment credit.

 “Sec. 1395. Other definitions and special rules.

14 **“SEC. 1394. ENTERPRISE ZONE EMPLOYMENT CREDIT.**

15 “(a) AMOUNT OF CREDIT.—For purposes of section
16 38, the amount of the enterprise zone employment credit
17 determined under this section with respect to any em-
18 ployer for any taxable year is 15 percent of the qualified
19 zone wages paid or incurred during such taxable year.

20 “(b) QUALIFIED ZONE WAGES.—

21 “(1) IN GENERAL.—For purposes of this sec-
22 tion, the term ‘qualified zone wages’ means any

1 wages paid or incurred by an employer for services
2 performed by an employee while such employee is a
3 qualified zone employee.

4 “(2) ONLY FIRST \$20,000 OF WAGES PER YEAR
5 TAKEN INTO ACCOUNT.—With respect to each quali-
6 fied zone employee, the amount of qualified zone
7 wages which may be taken into account for the tax-
8 able year shall not exceed \$20,000.

9 “(3) COORDINATION WITH TARGETED JOBS
10 CREDIT.—The term ‘qualified zone wages’ shall not
11 include wages attributable to service rendered during
12 the 1-year period beginning with the day the individ-
13 ual begins work for the employer if any portion of
14 such wages is taken into account in determining the
15 credit under section 51.

16 “(c) QUALIFIED ZONE EMPLOYEE.—For purposes of
17 this section—

18 “(1) IN GENERAL.—Except as otherwise pro-
19 vided in this subsection, the term ‘qualified zone em-
20 ployee’ means, with respect to any period, any em-
21 ployee of an employer if—

22 “(A) substantially all of the services per-
23 formed during such period by such employee for
24 such employer are performed within a tax en-

1 enterprise zone in a trade or business of the em-
2 ployer, and

3 “(B) the principal place of abode of such
4 employee while performing such services is
5 within such tax enterprise zone.

6 “(2) CERTAIN INDIVIDUALS NOT ELIGIBLE.—
7 The term ‘qualified zone employee’ shall not in-
8 clude—

9 “(A) any individual described in subpara-
10 graph (A), (B), or (C) of section 51(i)(1),

11 “(B) any 5-percent owner (as defined in
12 section 416(i)(1)(B)),

13 “(C) any individual employed by the em-
14 ployer at any facility described in section
15 144(c)(6)(B), and

16 “(D) any individual employed by the em-
17 ployer in a trade or business the principal activ-
18 ity of which is farming (within the meaning of
19 subparagraphs (A) or (B) of section
20 2032A(e)(5)), but only if, as of the close of the
21 taxable year, the sum of—

22 “(i) the aggregate unadjusted bases
23 (or, if greater, the fair market value) of
24 the assets owned by the employer which
25 are used in such a trade or business, and

1 “(ii) the aggregate value of assets
2 leased by the employer which are used in
3 such a trade or business (as determined
4 under regulations prescribed by the Sec-
5 retary),
6 exceeds \$500,000.

7 “(d) EARLY TERMINATION OF EMPLOYMENT BY EM-
8 PLOYER.—

9 “(1) IN GENERAL.—If the employment of any
10 employee is terminated by the taxpayer before the
11 day 1 year after the day on which such employee
12 began work for the employer—

13 “(A) no wages with respect to such em-
14 ployee shall be taken into account under sub-
15 section (a) for the taxable year in which such
16 employment is terminated, and

17 “(B) the tax under this chapter for the
18 taxable year in which such employment is ter-
19 minated shall be increased by the aggregate
20 credits (if any) allowed under section 38(a) for
21 prior taxable years by reason of wages taken
22 into account with respect to such employee.

23 “(2) CARRYBACKS AND CARRYOVERS AD-
24 JUSTED.—In the case of any termination of employ-
25 ment to which paragraph (1) applies, the carrybacks

1 and carryovers under section 39 shall be properly
2 adjusted.

3 “(3) SUBSECTION NOT TO APPLY IN CERTAIN
4 CASES.—

5 “(A) IN GENERAL.—Paragraph (1) shall
6 not apply to—

7 “(i) a termination of employment of
8 an employee who voluntarily leaves the em-
9 ployment of the taxpayer,

10 “(ii) a termination of employment of
11 an individual who before the close of the
12 period referred to in paragraph (1) be-
13 comes disabled to perform the services of
14 such employment unless such disability is
15 removed before the close of such period
16 and the taxpayer fails to offer reemploy-
17 ment to such individual, or

18 “(iii) a termination of employment of
19 an individual if it is determined under the
20 applicable State unemployment compensa-
21 tion law that the termination was due to
22 the misconduct of such individual.

23 “(B) CHANGES IN FORM OF BUSINESS.—
24 For purposes of paragraph (1), the employment

1 relationship between the taxpayer and an em-
2 ployee shall not be treated as terminated—

3 “(i) by a transaction to which section
4 381(a) applies if the employee continues to
5 be employed by the acquiring corporation,
6 or

7 “(ii) by reason of a mere change in
8 the form of conducting the trade or busi-
9 ness of the taxpayer if the employee con-
10 tinues to be employed in such trade or
11 business and the taxpayer retains a sub-
12 stantial interest in such trade or business.

13 “(4) SPECIAL RULE.—Any increase in tax
14 under paragraph (1) shall not be treated as a tax
15 imposed by this chapter for purposes of—

16 “(A) determining the amount of any credit
17 allowable under this chapter, and

18 “(B) determining the amount of the tax
19 imposed by section 55.

20 **“SEC. 1395. OTHER DEFINITIONS AND SPECIAL RULES.**

21 “(a) WAGES.—For purposes of this subpart, the term
22 ‘wages’ has the same meaning as when used in section
23 51.

24 “(b) CONTROLLED GROUPS.—For purposes of this
25 subpart—

9 “(c) CERTAIN OTHER RULES MADE APPLICABLE.—
10 For purposes of this subpart, rules similar to the rules
11 of section 51(k) and subsections (c), (d), and (e) of section
12 52 shall apply.

“(d) NOTICE OF AVAILABILITY OF ADVANCE PAY-
MENT OF EARNED INCOME CREDIT.—Each employer
shall take reasonable steps to notify all qualified zone em-
ployees of the availability to eligible individuals of receiv-
ing advanced payments of the credit under section 32 (re-
lating to the earned income credit).

“Sec. 1396. Deduction for purchase of enterprise zone stock.
“Sec. 1397. 50 percent exclusion for gain from new zone investments.
“Sec. 1397A. Nonrecognition of gain from new zone investments.
“Sec. 1397B. Other incentives.
“Sec. 1397C. Enterprise zone business defined.

1 **“SEC. 1396. DEDUCTION FOR PURCHASE OF ENTERPRISE**
2 **ZONE STOCK.**

3 “(a) GENERAL RULE.—In the case of an individual,
4 there shall be allowed as a deduction an amount equal to
5 50 percent of the aggregate amount paid in cash by the
6 taxpayer during the taxable year for the purchase of enter-
7 prise zone stock.

8 “(b) LIMITATION.—

9 “(1) IN GENERAL.—The maximum amount al-
10 lowed as a deduction under subsection (a) to a tax-
11 payer for the taxable year shall not exceed the lesser
12 of—

13 “(A) \$25,000, or

14 “(B) the excess of \$250,000 over the
15 amount allowed as a deduction under this sec-
16 tion to the taxpayer for all prior taxable years.

17 “(2) EXCESS AMOUNTS.—If the amount other-
18 wise deductible by any person under subsection (a)
19 exceeds the limitation under paragraph (1)(A)—

20 “(A) the amount of such excess shall be
21 treated as an amount paid to which subsection
22 (a) applies during the next taxable year, and

23 “(B) the deduction allowed for any taxable
24 year shall be allocated proportionately among
25 the enterprise zone stock purchased by such

1 person on the basis of the respective purchase
2 prices per share.

3 “(3) AGGREGATION WITH FAMILY MEMBERS.—

4 The taxpayer and members of the taxpayer’s family
5 shall be treated as one person for purposes of para-
6 graph (1), and the limitations contained in such
7 paragraph shall be allocated among the taxpayer and
8 such members in accordance with their respective
9 purchases of enterprise zone stock. For purposes of
10 this paragraph, an individual’s family includes only
11 such individual’s spouse and minor children.

12 “(c) ENTERPRISE ZONE STOCK.—For purposes of
13 this section—

14 “(1) IN GENERAL.—The term ‘enterprise zone
15 stock’ means stock of a corporation if—

16 “(A) such stock is acquired on original
17 issue from the corporation, and

18 “(B) such corporation is, at the time of
19 issue, a qualified enterprise zone issuer.

20 “(2) PROCEEDS MUST BE INVESTED IN QUALI-
21 FIED ENTERPRISE ZONE PROPERTY.—

22 “(A) IN GENERAL.—Such term shall in-
23 clude such stock only to the extent that the pro-
24 ceeds of such issuance are used by such issuer
25 during the 12-month period beginning on the

1 date of issuance to purchase (as defined in sec-
 2 tion 179(d)(2)) qualified enterprise zone prop-
 3 erty.

4 “(B) QUALIFIED ENTERPRISE ZONE PROP-
 5 ERTY.—For purposes of this section, the term
 6 ‘qualified enterprise zone property’ means prop-
 7 erty to which section 168 applies—

8 “(i) the original use of which in a tax
 9 enterprise zone commences with the issuer,
 10 and

11 “(ii) substantially all of the use of
 12 which is in a tax enterprise zone.

13 “(3) REDEMPTIONS.—The term ‘enterprise
 14 zone stock’ shall not include any stock acquired from
 15 a corporation which made a substantial stock re-
 16 demption or distribution (without a bona fide busi-
 17 ness purpose therefor) in an attempt to avoid the
 18 purposes of this section.

19 “(d) QUALIFIED ENTERPRISE ZONE ISSUER.—For
 20 purposes of this section, the term ‘qualified enterprise
 21 zone issuer’ means any domestic C corporation if—

22 “(1) such corporation is an enterprise zone
 23 business or, in the case of a new corporation, such
 24 corporation is being organized for purposes of being
 25 an enterprise zone business,

1 “(2) such corporation does not have more than
2 one class of stock,

3 “(3) the sum of—

4 “(A) the money,

5 “(B) the aggregate unadjusted bases of
6 property owned by such corporation, and

7 “(C) the value of property leased to the
8 corporation (as determined under regulations
9 prescribed by the Secretary),

10 does not exceed \$5,000,000, and

11 “(4) more than 20 percent of the total voting
12 power, and 20 percent of the total value, of the
13 stock of such corporation is owned directly by indi-
14 viduals or estates or indirectly by individuals
15 through partnerships or trusts.

16 The determination under paragraph (3) shall be made as
17 of the time of issuance of the stock in question but shall
18 include amounts received for such stock.

19 “(e) DISPOSITIONS OF STOCK.—

20 “(1) BASIS REDUCTION.—For purposes of this
21 title, the basis of any enterprise zone stock shall be
22 reduced by the amount of the deduction allowed
23 under this section with respect to such stock.

24 “(2) DEDUCTION RECAPTURED AS ORDINARY
25 INCOME.—For purposes of section 1245—

1 “(A) any stock the basis of which is re-
2 duced under paragraph (1) (and any other
3 property the basis of which is determined in
4 whole or in part by reference to the adjusted
5 basis of such stock) shall be treated as section
6 1245 property, and

7 “(B) any reduction under paragraph (1)
8 shall be treated as a deduction allowed for de-
9 preciation.

10 If an exchange of any stock described in paragraph
11 (1) qualifies under section 354(a), 355(a), or
12 356(a), the amount of gain recognized under section
13 1245 by reason of this paragraph shall not exceed
14 the amount of gain recognized in the exchange (de-
15 termined without regard to this paragraph).

16 “(3) CERTAIN EVENTS TREATED AS DISPOSI-
17 TIONS.—For purposes of determining the amount
18 treated as ordinary income under section 1245 by
19 reason of paragraph (2), paragraph (3) of section
20 1245(b) (relating to certain tax-free transactions)
21 shall not apply.

22 “(4) INTEREST CHARGED IF DISPOSITION
23 WITHIN 5 YEARS OF PURCHASE.—

24 “(A) IN GENERAL.—If—

1 “(i) a taxpayer disposes of any enter-
2 prise zone stock with respect to which a
3 deduction was allowed under subsection (a)
4 (or any other property the basis of which
5 is determined in whole or in part by ref-
6 erence to the adjusted basis of such stock)
7 before the end of the 5-year period begin-
8 ning on the date such stock was purchased
9 by the taxpayer, and

10 “(ii) section 1245(a) applies to such
11 disposition by reason of paragraph (2),
12 then the tax imposed by this chapter for the
13 taxable year in which such disposition occurs
14 shall be increased by the amount determined
15 under subparagraph (B).

16 “(B) ADDITIONAL AMOUNT.—For purposes
17 of subparagraph (A), the additional amount
18 shall be equal to the amount of interest (deter-
19 mined at the rate applicable under section
20 6621(a)(2)) that would accrue—

21 “(i) during the period beginning on
22 the date the stock was purchased by the
23 taxpayer and ending on the date of such
24 disposition by the taxpayer,

1 “(ii) on an amount equal to the aggre-
 2 gate decrease in tax of the taxpayer result-
 3 ing from the deduction allowed under this
 4 subsection (a) with respect to such stock.

5 “(C) SPECIAL RULE.—Any increase in tax
 6 under subparagraph (A) shall not be treated as
 7 a tax imposed by this chapter for purposes of—

8 “(i) determining the amount of any
 9 credit allowable under this chapter, and

10 “(ii) determining the amount of the
 11 tax imposed by section 55.

12 “(f) DISQUALIFICATION.—

13 “(1) ISSUER CEASES TO QUALIFY.—If, during
 14 the 10-year period beginning on the date enterprise
 15 zone stock was purchased by the taxpayer, the issuer
 16 of such stock ceases to be a qualified enterprise zone
 17 issuer (determined without regard to subsection
 18 (d)(3)), then notwithstanding any provision of this
 19 subtitle other than paragraph (2), the taxpayer shall
 20 be treated for purposes of subsection (e) as dispos-
 21 ing of such stock (and any other property the basis
 22 of which is determined in whole or in part by ref-
 23 erence to the adjusted basis of such stock) during
 24 the taxable year during which such cessation occurs

1 at its fair market value as of the 1st day of such
2 taxable year.

3 “(2) CESSATION OF ENTERPRISE ZONE STATUS
4 NOT TO CAUSE RECAPTURE.—A corporation shall
5 not fail to be treated as a qualified enterprise zone
6 issuer for purposes of paragraph (1) solely by reason
7 of the termination or revocation of a tax enterprise
8 zone designation.

9 “(g) OTHER SPECIAL RULES.—

10 “(1) APPLICATION OF LIMITS TO PARTNER-
11 SHIPS AND S CORPORATIONS.—In the case of a part-
12 nership or an S corporation, the limitations under
13 subsection (b) shall apply at the partner and share-
14 holder level and shall not apply at the partnership
15 or corporation level.

16 “(2) DEDUCTION NOT ALLOWED TO ESTATES
17 AND TRUSTS.—Estates and trusts shall not be treat-
18 ed as individuals for purposes of this section.

19 **“SEC. 1397. 50 PERCENT EXCLUSION FOR GAIN FROM NEW**
20 **ZONE INVESTMENTS.**

21 “(a) GENERAL RULE.—In the case of an individual,
22 gross income shall not include 50 percent of any qualified
23 capital gain recognized on the sale or exchange of a quali-
24 fied zone asset held for more than 5 years.

1 “(b) QUALIFIED ZONE ASSET.—For purposes of this
2 section—

3 “(1) IN GENERAL.—The term ‘qualified zone
4 asset’ means—

5 “(A) any qualified zone stock,

6 “(B) any qualified zone business property,

7 and

8 “(C) any qualified zone partnership inter-
9 est.

10 “(2) QUALIFIED ZONE STOCK.—

11 “(A) IN GENERAL.—Except as provided in
12 subparagraph (B), the term ‘qualified zone
13 stock’ means any stock in a domestic corpora-
14 tion if—

15 “(i) such stock is acquired by the tax-
16 payer on original issue from the corpora-
17 tion solely in exchange for cash,

18 “(ii) as of the time such stock was is-
19 sued, such corporation was an enterprise
20 zone business (or, in the case of a new cor-
21 poration, such corporation was being orga-
22 nized for purposes of being an enterprise
23 zone business), and

24 “(iii) during substantially all of the
25 taxpayer’s holding period for such stock,

1 such corporation qualified as an enterprise
2 zone business.

3 “(B) EXCLUSION OF STOCK FOR WHICH
4 DEDUCTION UNDER SECTION 1396 ALLOWED.—
5 The term ‘qualified zone stock’ shall not include
6 any stock the basis of which is reduced under
7 section 1396(e)(1).

8 “(C) REDEMPTIONS.—The term ‘qualified
9 zone stock’ shall not include any stock acquired
10 from a corporation which made a substantial
11 stock redemption or distribution (without a
12 bona fide business purpose therefor) in an at-
13 tempt to avoid the purposes of this section.

14 “(3) QUALIFIED ZONE BUSINESS PROPERTY.—

15 “(A) IN GENERAL.—The term ‘qualified
16 zone business property’ means tangible property
17 if—

18 “(i) such property was acquired by
19 the taxpayer by purchase (as defined in
20 section 179(d)(2)) after the date on which
21 the designation of the tax enterprise zone
22 took effect,

23 “(ii) the original use of such property
24 in a tax enterprise zone commences with
25 the taxpayer, and

1 “(iii) during substantially all of the
2 taxpayer’s holding period for such prop-
3 erty, substantially all of the use of such
4 property was in a tax enterprise zone and
5 in an enterprise zone business of the tax-
6 payer.

7 “(B) SPECIAL RULE FOR SUBSTANTIAL IM-
8 PROVEMENTS.—The requirements of clauses (i)
9 and (ii) of subparagraph (A) shall be treated as
10 satisfied with respect to—

11 “(i) property which is substantially
12 improved by the taxpayer, and

13 “(ii) any land on which such property
14 is located.

15 For purposes of the preceding sentence, prop-
16 erty shall be treated as substantially improved
17 by the taxpayer if, during any 24-month period
18 beginning after the date on which the designa-
19 tion of the tax enterprise zone took effect, addi-
20 tions to basis with respect to such property in
21 the hands of the taxpayer exceed the greater of
22 (i) an amount equal to the adjusted basis at the
23 beginning of such 24-month period in the hands
24 of the taxpayer, or (ii) \$5,000.

1 “(C) LIMITATION ON LAND.—The term
 2 ‘qualified zone business property’ shall not in-
 3 clude land which is not an integral part of a
 4 qualified business (as defined in section
 5 1397C(c)).

6 “(4) QUALIFIED ZONE PARTNERSHIP INTER-
 7 EST.—The term ‘qualified zone partnership interest’
 8 means any interest in a partnership if—

9 “(A) such interest is acquired by the tax-
 10 payer from the partnership solely in exchange
 11 for cash,

12 “(B) as of the time such interest was ac-
 13 quired, such partnership was an enterprise zone
 14 business (or, in the case of a new partnership,
 15 such partnership was being organized for pur-
 16 poses of being an enterprise zone business), and

17 “(C) during substantially all of the tax-
 18 payer’s holding period for such interest, such
 19 partnership qualified as an enterprise zone
 20 business.

21 A rule similar to the rule of paragraph (2)(C) shall
 22 apply for purposes of this paragraph.

23 “(5) TREATMENT OF SUBSEQUENT PUR-
 24 CHASERS.—The term ‘qualified zone asset’ includes
 25 any property which would be a qualified zone asset

1 but for paragraph (2)(A)(i), (3)(A)(ii), or (4)(A) in
2 the hands of the taxpayer if such property was a
3 qualified zone asset in the hands of any prior holder.

4 “(6) 10-YEAR SAFE HARBOR.—If any property
5 ceases to be a qualified zone asset by reason of para-
6 graph (2)(A)(iii), (3)(A)(iii), or (4)(C) after the 10-
7 year period beginning on the date the taxpayer ac-
8 quired such property, such property shall continue to
9 be treated as meeting the requirements of such
10 paragraph; except that the amount of gain to which
11 subsection (a) applies on any sale or exchange of
12 such property shall not exceed the amount which
13 would be qualified capital gain had such property
14 been sold on the date of such cessation.

15 “(7) TREATMENT OF ZONE TERMINATIONS.—
16 The termination of any designation of an area as a
17 tax enterprise zone shall be disregarded for purposes
18 of determining whether any property is a qualified
19 zone asset.

20 “(c) OTHER DEFINITIONS AND SPECIAL RULES.—
21 For purposes of this section—

22 “(1) QUALIFIED CAPITAL GAIN.—Except as
23 otherwise provided in this subsection, the term
24 ‘qualified capital gain’ means any long-term capital
25 gain.

1 “(2) CERTAIN GAIN ON REAL PROPERTY NOT
2 QUALIFIED.—The term ‘qualified capital gain’ shall
3 not include any gain which would be treated as ordi-
4 nary income under section 1250 if section 1250 ap-
5 plied to all depreciation rather than the additional
6 depreciation.

7 “(3) GAIN ATTRIBUTABLE TO PERIODS AFTER
8 TERMINATION OF ZONE DESIGNATION NOT QUALI-
9 FIED.—The term ‘qualified capital gain’ shall not in-
10 clude any gain attributable to periods after the ter-
11 mination of any designation of an area as a tax en-
12 terprise zone.

13 “(d) TREATMENT OF PASS-THRU ENTITIES.—

14 “(1) SALES AND EXCHANGES.—Gain on the
15 sale or exchange of an interest in a pass-thru entity
16 held by the taxpayer (other than an interest in an
17 entity which was an enterprise zone business during
18 substantially all of the period the taxpayer held such
19 interest) for more than 5 years shall be treated as
20 gain described in subsection (a) to the extent such
21 gain is attributable to amounts which would be
22 qualified capital gain on qualified zone assets (deter-
23 mined as if such assets had been sold on the date
24 of the sale or exchange) held by such entity for more
25 than 5 years and throughout the period the taxpayer

1 held such interest. A rule similar to the rule of para-
2 graph (2)(C) shall apply for purposes of the preced-
3 ing sentence.

4 “(2) INCOME INCLUSIONS.—

5 “(A) IN GENERAL.—Any amount included
6 in income by reason of holding an interest in a
7 pass-thru entity (other than an entity which
8 was an enterprise zone business during substan-
9 tially all of the period the taxpayer held the in-
10 terest to which such inclusion relates) shall be
11 treated as gain described in subsection (a) if
12 such amount meets the requirements of sub-
13 paragraph (B).

14 “(B) REQUIREMENTS.—An amount meets
15 the requirements of this subparagraph if—

16 “(i) such amount is attributable to
17 qualified capital gain recognized on the
18 sale or exchange by the pass-thru entity of
19 property which is a qualified zone asset in
20 the hands of such entity and which was
21 held by such entity for the period required
22 under subsection (a), and

23 “(ii) such amount is includible in the
24 gross income of the taxpayer by reason of
25 the holding of an interest in such entity

1 which was held by the taxpayer on the date
2 on which such pass-thru entity acquired
3 such asset and at all times thereafter be-
4 fore the disposition of such asset by such
5 pass-thru entity.

6 “(C) LIMITATION BASED ON INTEREST
7 ORIGINALLY HELD BY TAXPAYER.—Subpara-
8 graph (A) shall not apply to any amount to the
9 extent such amount exceeds the amount to
10 which subparagraph (A) would have applied if
11 such amount were determined by reference to
12 the interest the taxpayer held in the pass-thru
13 entity on the date the qualified zone asset was
14 acquired.

15 “(3) PASS-THRU ENTITY.—For purposes of this
16 subsection, the term ‘pass-thru entity’ means—

17 “(A) any partnership,

18 “(B) any S corporation,

19 “(C) any regulated investment company,

20 and

21 “(D) any common trust fund.

22 “(e) SALES AND EXCHANGES OF INTERESTS IN
23 PARTNERSHIPS AND S CORPORATIONS WHICH ARE
24 QUALIFIED ZONE BUSINESSES.—In the case of the sale
25 or exchange of an interest in a partnership, or of stock

1 in an S corporation, which was an enterprise zone business
 2 during substantially all of the period the taxpayer held
 3 such interest or stock, the amount of qualified capital gain
 4 shall be determined without regard to—

5 “(1) any intangible, and any land, which is not
 6 an integral part of any qualified business (as defined
 7 in section 1397C(b)), and

8 “(2) gain attributable to periods before the des-
 9 ignation of an area as a tax enterprise zone.

10 “(f) CERTAIN TAX-FREE AND OTHER TRANSFERS.—
 11 For purposes of this section—

12 “(1) IN GENERAL.—In the case of a transfer of
 13 a qualified zone asset to which this subsection ap-
 14 plies, the transferee shall be treated as—

15 “(A) having acquired such asset in the
 16 same manner as the transferor, and

17 “(B) having held such asset during any
 18 continuous period immediately preceding the
 19 transfer during which it was held (or treated as
 20 held under this subsection) by the transferor.

21 “(2) TRANSFERS TO WHICH SUBSECTION AP-
 22 PLIES.—This subsection shall apply to any trans-
 23 fer—

24 “(A) by gift,

25 “(B) at death, or

1 “(C) from a partnership to a partner
2 thereof of a qualified zone asset with respect to
3 which the requirements of subsection (d)(2) are
4 met at the time of the transfer (without regard
5 to the 5-year holding requirement).

6 “(3) CERTAIN RULES MADE APPLICABLE.—
7 Rules similar to the rules of section 1244(d)(2) shall
8 apply for purposes of this section.

9 “(g) CERTAIN BUSINESSES TREATED AS NOT
10 QUALIFIED BUSINESSES.—For purposes of this section
11 and section 1397A, the term ‘enterprise zone business’ has
12 the meaning given such term by section 1397C except
13 that, in applying section 1397C for such purposes, the
14 term ‘qualified business’ shall not include any trade or
15 business of producing property of a character subject to
16 the allowance for depletion under section 611.

17 **“SEC. 1397A. NONRECOGNITION OF GAIN FROM NEW ZONE**
18 **INVESTMENTS.**

19 “(a) GENERAL RULE.—At the election of an individ-
20 ual, qualified capital gain (within the meaning of section
21 1397) from the sale or exchange of a qualified zone asset
22 shall be recognized only to the extent that—

23 “(1) the amount realized from such sale or ex-
24 change, exceeds

1 “(2) the cost (not heretofore taken into account
2 under this subsection) of any qualified zone asset
3 purchased directly by the taxpayer during the rein-
4 vestment period.

5 “(b) QUALIFIED ZONE ASSET.—For purposes of this
6 section—

7 “(1) IN GENERAL.—The term ‘qualified zone
8 asset’ has the meaning given such term by section
9 1397.

10 “(2) TIME FOR TESTING.—

11 “(A) SALES.—In the case of a sale or ex-
12 change of property, the determination of wheth-
13 er such property is a qualified zone asset shall
14 be made as of the time of the sale or exchange.

15 “(B) PURCHASES.—In the case of a pur-
16 chase of property, the determination of whether
17 such property is a qualified zone asset shall be
18 made as of the time of such purchase.

19 “(c) OTHER DEFINITIONS.—For purposes of this
20 section—

21 “(1) REINVESTMENT PERIOD.—The term ‘rein-
22 vestment period’ means, with respect to any sale or
23 exchange, the 6-month period beginning on the date
24 of such sale or exchange.

1 “(2) PURCHASE.—The term ‘purchase’ has the
2 meaning given to such term by section 179(d)(2).

3 “(d) BUSINESS OR PROPERTY CEASES TO QUAL-
4 IFY.—

5 “(1) IN GENERAL.—If, during the 10-year pe-
6 riod beginning on the date any qualified zone re-
7 placement asset was purchased by the taxpayer,
8 such asset ceases to be a qualified zone asset, not-
9 withstanding any provision of this subtitle other
10 than paragraph (3), the taxpayer shall be treated as
11 disposing of such asset during the taxable year dur-
12 ing which such cessation occurs at its fair market
13 value as of the 1st day of such taxable year.

14 “(2) LIMITATION ON GAIN RECOGNIZED.—The
15 amount of gain recognized pursuant to paragraph
16 (1) with respect to any asset shall not exceed the
17 lesser of—

18 “(A) the amount of gain which was not
19 recognized under subsection (a) by the reason
20 of the purchase of such asset, or

21 “(B) the excess of the fair market value
22 referred to in paragraph (1) over the adjusted
23 basis of such asset.

24 “(3) CESSATION OF ENTERPRISE ZONE STATUS
25 NOT TO CAUSE RECAPTURE.—An asset shall not fail

1 to be treated as a qualified zone asset for purposes
2 of paragraph (1) solely by reason of the termination
3 of a tax enterprise zone designation.

4 “(4) QUALIFIED ZONE REPLACEMENT ASSET.—
5 For purposes of paragraph (1), the term ‘qualified
6 zone replacement asset’ means any qualified zone
7 asset the purchase of which resulted in the non-
8 recognition of gain under subsection (a) with respect
9 to any other property.

10 “(e) BASIS OF QUALIFIED ZONE REPLACEMENT
11 ASSET.—If gain from the sale or exchange of any property
12 is not recognized by reason of subsection (a), such gain
13 shall be applied to reduce (in the order acquired) the basis
14 of any qualified zone replacement asset (as defined in sub-
15 section (d)(4)) purchased during the reinvestment period.

16 “(f) COORDINATION WITH INSTALLMENT METHOD
17 REPORTING.—This section shall not apply to any gain
18 from any installment sale (as defined in section 453(b))
19 if section 453(a) applies to such sale.

20 “(g) STATUTE OF LIMITATIONS.—If any gain is real-
21 ized by the taxpayer on any sale or exchange to which
22 an election under this section applies, then—

23 “(1) the statutory period for the assessment of
24 any deficiency with respect to such gain shall not ex-
25 pire before the expiration of 3 years from the date

1 the Secretary is notified by the taxpayer (in such
2 manner as the Secretary may by regulations pre-
3 scribe) of—

4 “(A) the taxpayer’s cost of purchasing any
5 qualified zone replacement asset,

6 “(B) the taxpayer’s intention not to pur-
7 chase a qualified zone replacement asset within
8 the reinvestment period, or

9 “(C) a failure to make such purchase with-
10 in the reinvestment period, and

11 “(2) such deficiency may be assessed before the
12 expiration of such 3-year period notwithstanding the
13 provisions of any law or rule of law which would oth-
14 erwise prevent such assessment.

15 **“SEC. 1397B. ADDITIONAL INCENTIVES.**

16 “(a) INCREASE IN EXPENSING UNDER SECTION
17 179.—In the case of an enterprise zone business, section
18 179(b)(1) shall be applied by substituting ‘\$20,000’ for
19 ‘\$10,000’.

20 “(b) ORDINARY LOSS TREATMENT FOR CERTAIN
21 PROPERTY.—

22 “(1) IN GENERAL.—Loss on any qualified zone
23 asset (as defined in section 1397(b)) held for more
24 than 2 years (5 years in the case of real property)
25 shall be treated as an ordinary loss.

1 “(2) REAL PROPERTY.—For purposes of para-
 2 graph (1), the term ‘real property’ means any prop-
 3 erty which is section 1250 property (as defined in
 4 section 1250(c)).

5 “(3) SPECIAL RULES.—

6 “(A) CERTAIN RULES MADE APPLICA-
 7 BLE.—For purposes of this subsection, rules
 8 similar to the following rules shall apply:

9 “(i) Paragraphs (1), (2), and (3) of
 10 section 1244(d).

11 “(ii) Subsections (b)(6), (c)(3), (d),
 12 (e), and (f) of section 1397.

13 “(B) COORDINATION WITH SECTION
 14 1231.—Losses treated as ordinary losses by rea-
 15 son of this subsection shall not be taken into
 16 account in applying section 1231.

17 **“SEC. 1397C. ENTERPRISE ZONE BUSINESS DEFINED.**

18 “(a) IN GENERAL.—For purposes of this subpart, the
 19 term ‘enterprise zone business’ means—

20 “(1) any qualified business entity, and

21 “(2) any qualified proprietorship.

22 “(b) QUALIFIED BUSINESS ENTITY.—For purposes
 23 of this section, the term ‘qualified business entity’ means,
 24 with respect to any taxable year, any corporation or part-
 25 nership if for such year—

1 “(1)(A) every trade or business of such entity
2 is the active conduct of a qualified business within
3 a tax enterprise zone, and

4 “(B) at least 80 percent of the total gross in-
5 come of such entity is derived from the active con-
6 duct of such business,

7 “(2) substantially all of the use of the tangible
8 property of such entity (whether owned or leased) is
9 within a tax enterprise zone,

10 “(3) substantially all of the intangible property
11 of such entity is used in, and exclusively related to,
12 the active conduct of any such business,

13 “(4) substantially all of the services performed
14 for such entity by its employees are performed in a
15 tax enterprise zone,

16 “(5) at least $\frac{1}{3}$ of its employees are residents
17 of a tax enterprise zone,

18 “(6) less than 5 percent of the average of the
19 aggregate unadjusted bases of the property of such
20 entity is attributable to collectibles (as defined in
21 section 408(m)(2)) other than collectibles that are
22 held primarily for sale to customers in the ordinary
23 course of such business, and

24 “(7) less than 5 percent of the average of the
25 aggregate unadjusted bases of the property of such

1 entity is attributable to nonqualified financial prop-
2 erty.

3 “(c) QUALIFIED PROPRIETORSHIP.—For purposes of
4 this section, the term ‘qualified proprietorship’ means,
5 with respect to any taxable year, any qualified business
6 carried on by an individual as a proprietorship if for such
7 year—

8 “(1) at least 80 percent of the total gross in-
9 come of such individual from such business is de-
10 rived from the active conduct of such business in a
11 tax enterprise zone,

12 “(2) substantially all of the use of the tangible
13 property of such individual in such business (wheth-
14 er owned or leased) is within a tax enterprise zone,

15 “(3) substantially all of the intangible property
16 of such business is used in, and exclusively related
17 to, the active conduct of such business,

18 “(4) substantially all of the services performed
19 for such individual in such business by employees of
20 such business are performed in a tax enterprise
21 zone,

22 “(5) at least $\frac{1}{3}$ of such employees are residents
23 of a tax enterprise zone,

24 “(6) less than 5 percent of the average of the
25 aggregate unadjusted bases of the property of such

1 individual which is used in such business is attrib-
2 utable to collectibles (as defined in section
3 408(m)(2)) other than collectibles that are held pri-
4 marily for sale to customers in the ordinary course
5 of such business, and

6 “(7) less than 5 percent of the average of the
7 aggregate unadjusted bases of the property of such
8 individual which is used in such business is attrib-
9 utable to nonqualified financial property.

10 For purposes of this subsection, the term ‘employee’ in-
11 cludes the proprietor.

12 “(d) QUALIFIED BUSINESS.—For purposes of this
13 section—

14 “(1) IN GENERAL.—Except as otherwise pro-
15 vided in this subsection, the term ‘qualified business’
16 means any trade or business.

17 “(2) RENTAL OF REAL PROPERTY.—The rental
18 to others of real property located in a tax enterprise
19 zone shall be treated as a qualified business if and
20 only if—

21 “(A) in the case of real property which is
22 not residential rental property (as defined in
23 section 168(e)(2)), the lessee is an enterprise
24 zone business, or

1 “(B) in the case of residential rental prop-
2 erty (as so defined)—

3 “(i) such property was originally
4 placed in service after the date the tax en-
5 terprise zone was designated, or

6 “(ii) such property is rehabilitated
7 after such date in a rehabilitation which
8 meets requirements based on the principles
9 of section 42(e)(3).

10 “(3) RENTAL OF TANGIBLE PERSONAL PROP-
11 PERTY.—The rental to others of tangible personal
12 property shall be treated as a qualified business if
13 and only if substantially all of the rental of such
14 property is by enterprise zone businesses or by resi-
15 dents of a tax enterprise zone.

16 “(4) TREATMENT OF BUSINESS HOLDING IN-
17 TANGIBLES.—The term ‘qualified business’ shall not
18 include any trade or business consisting predomi-
19 nantly of the development or holding of intangibles
20 for sale or license.

21 “(5) CERTAIN BUSINESSES EXCLUDED.—The
22 term ‘qualified business’ shall not include—

23 “(A) any trade or business consisting of
24 the operation of any facility described in section
25 144(c)(6)(B), and

1 “(B) any trade or business the principal
2 activity of which is farming (within the meaning
3 of subparagraphs (A) or (B) of section
4 2032A(e)(5)), but only if, as of the close of the
5 preceding taxable year, the sum of—

6 “(i) the aggregate unadjusted bases
7 (or, if greater, the fair market value) of
8 the assets owned by the taxpayer which are
9 used in such a trade or business, and

10 “(ii) the aggregate value of assets
11 leased by the taxpayer which are used in
12 such a trade or business,

13 exceeds \$500,000.

14 For purposes of subparagraph (B), rules similar to
15 the rules of section 1395(b) shall apply.

16 “(e) NONQUALIFIED FINANCIAL PROPERTY.—For
17 purposes of this section, the term ‘nonqualified financial
18 property’ means debt, stock, partnership interests, op-
19 tions, futures contracts, forward contracts, warrants, no-
20 tional principal contracts, annuities, and other similar
21 property specified in regulations; except that such term
22 shall not include—

23 “(1) reasonable amounts of working capital
24 held in cash, cash equivalents, or debt instruments
25 with a term of 18 months or less, or

1 “(2) debt instruments described in section
2 1221(4).

3 **“Subpart C—Regulations**

“Sec. 1397C. Regulations.

4 **“SEC. 1397C. REGULATIONS.**

5 “The Secretary shall prescribe such regulations as
6 may be necessary or appropriate to carry out the purposes
7 of this part, including—

8 “(1) regulations limiting the benefit of this part
9 in circumstances where such benefits, in combination
10 with benefits provided under other Federal pro-
11 grams, would result in an activity being 100 percent
12 or more subsidized by the Federal Government,

13 “(2) regulations preventing abuse of the provi-
14 sions of this part, and

15 “(3) regulations dealing with inadvertent fail-
16 ures of entities to be qualified zone businesses.”.

17 (b) CLERICAL AMENDMENT.—The table of sub-
18 chapters for chapter 1 of such Code is amended by insert-
19 ing after the item relating to subchapter T the following
20 new item:

“Subchapter U. Designation and treatment of tax enterprise
zones.”.

21 **SEC. 412. TECHNICAL AND CONFORMING AMENDMENTS.**

22 (a) ENTERPRISE ZONE EMPLOYMENT CREDIT PART
23 OF GENERAL BUSINESS CREDIT.—

1 (1) Subsection (b) of section 38 of the Internal
2 Revenue Code of 1986 (relating to current year
3 business credit) is amended by striking “plus” at the
4 end of paragraph (6), by striking the period at the
5 end of paragraph (7) and inserting “, plus”, and by
6 adding at the end the following new paragraph:

7 “(8) the enterprise zone employment credit de-
8 termined under section 1394(a).”.

9 (2) Subsection (d) of section 39 of such Code
10 is amended by adding at the end thereof the follow-
11 ing new paragraph:

12 “(3) NO CARRYBACK OF SECTION 1394 CREDIT
13 BEFORE ENACTMENT.—No portion of the unused
14 business credit for any taxable year which is attrib-
15 utable to the enterprise zone employment credit de-
16 termined under section 1394 may be carried to a
17 taxable year ending before the date of the enactment
18 of section 1394.”.

19 (b) NONITEMIZERS ALLOWED DEDUCTION FOR EN-
20 TERPRISE ZONE STOCK.—Subsection (a) of section 62 of
21 such Code is amended by adding at the end thereof the
22 following new paragraph:

23 “(14) ENTERPRISE ZONE STOCK.—The deduc-
24 tion allowed by section 1396.”.

1 (c) DENIAL OF DEDUCTION FOR PORTION OF WAGES
 2 EQUAL TO ENTERPRISE ZONE EMPLOYMENT CREDIT.—

3 (1) Subsection (a) of section 280C of such Code
 4 (relating to rule for targeted jobs credit) is amend-
 5 ed—

6 (A) by striking “the amount of the credit
 7 determined for the taxable year under section
 8 51(a)” and inserting “the sum of the credits
 9 determined for the taxable year under sections
 10 51(a) and 1394(a)”, and

11 (B) by striking “TARGETED JOBS CRED-
 12 IT” in the subsection heading and inserting
 13 “EMPLOYMENT CREDITS”.

14 (2) Subsection (c) of section 196 of such Code
 15 (relating to deduction for certain unused business
 16 credits) is amended by striking “and” at the end of
 17 paragraph (4), by striking the period at the end of
 18 paragraph (5) and inserting “, and”, and by adding
 19 at the end the following new paragraph:

20 “(6) the enterprise zone employment credit de-
 21 termined under section 1394(a).”.

22 (d) OTHER AMENDMENTS.—

23 (1)(A) Section 172(d)(2) of such Code (relating
 24 to modifications with respect to net operating loss
 25 deduction) is amended to read as follows:

1 “(2) CAPITAL GAINS AND LOSSES OF TAX-
2 PAYERS OTHER THAN CORPORATIONS.—In the case
3 of a taxpayer other than a corporation—

4 “(A) the amount deductible on account of
5 losses from sales or exchanges of capital assets
6 shall not exceed the amount includable on ac-
7 count of gains from sales or exchanges of cap-
8 ital assets; and

9 “(B) the exclusion provided by section
10 1397 shall not be allowed.”.

11 (B) Subparagraph (B) of section 172(d)(4) of
12 such Code is amended by inserting “, (2)(B),” after
13 “paragraph (1)”.

14 (2) Subsection (c) of section 381 of such Code
15 (relating to carryovers in certain corporate acqui-
16 sitions) is amended by adding at the end the following
17 new paragraph:

18 “(26) ENTERPRISE ZONE PROVISIONS.—The
19 acquiring corporation shall take into account (to the
20 extent proper to carry out the purposes of this sec-
21 tion and subchapter U, and under such regulations
22 as may be prescribed by the Secretary) the items re-
23 quired to be taken into account for purposes of sub-
24 chapter U in respect of the distributor or transferor
25 corporation.”.

1 (3) Paragraph (4) of section 642(c) of such
2 Code is amended to read as follows:

3 “(4) ADJUSTMENTS.—To the extent that the
4 amount otherwise allowable as a deduction under
5 this subsection consists of gain described in section
6 1397(a), proper adjustment shall be made for any
7 exclusion allowable to the estate or trust under sec-
8 tion 1397. In the case of a trust, the deduction al-
9 lowed by this subsection shall be subject to section
10 681 (relating to unrelated business income).”.

11 (4) Paragraph (3) of section 643(a) of such
12 Code is amended by adding at the end thereof the
13 following new sentence: “The exclusion under section
14 1397 shall not be taken into account.”.

15 (5) Paragraph (4) of section 691(c) of such
16 Code is amended by striking “1201, and 1211” and
17 inserting “1201, 1397, and 1211”.

18 (6) The second sentence of paragraph (2) of
19 section 871(a) of such Code is amended by inserting
20 “such gains and losses shall be determined without
21 regard to section 1397 and” after “except that”.

22 (7) Paragraph (1) of section 1371(d) of such
23 Code (relating to coordination with investment credit
24 recapture) is amended by inserting before the period

1 at the end the following “and for purposes of section
2 1394(d)(3)”.

3 (8) Subsection (a) of section 1016 of such Code
4 (relating to adjustments to basis) is amended by
5 striking “and” at the end of paragraph (23), by
6 striking the period at the end of paragraph (24) and
7 inserting a semicolon, and by adding at the end
8 thereof the following new paragraphs:

9 “(25) in the case of stock with respect to which
10 a deduction was allowed under section 1396(a), to
11 the extent provided in section 1396(e); and

12 “(26) in the case of property the acquisition of
13 which resulted under section 1397A in the non-
14 recognition of any part of the gain realized on the
15 sale or exchange of other property, to the extent pro-
16 vided in section 1397A(e).”.

17 (9) Section 1223 of such Code (relating to hold-
18 ing period of property) is amended by redesignating
19 paragraph (15) as paragraph (16) and by inserting
20 after paragraph (14) the following new paragraph:

21 “(15) In determining the period for which the
22 taxpayer has held property the acquisition of which
23 resulted under section 1397A in the nonrecognition
24 of any part of the gain realized on the sale or ex-
25 change of any qualified zone asset (as defined in sec-

1 tion 1397A(b)), there shall be included the period
2 for which such asset had been held as of the date
3 of such sale or exchange.”.

4 **SEC. 413. EFFECTIVE DATE.**

5 (a) GENERAL RULE.—The amendments made by this
6 subtitle shall take effect on the date of the enactment of
7 this Act.

8 (b) REQUIREMENT FOR RULES.—Not later than the
9 date 4 months after the date of the enactment of this Act,
10 the appropriate Secretaries shall issue rules—

11 (1) establishing the procedures for nominating
12 areas for designation as tax enterprise zones,

13 (2) establishing a method for comparing the
14 factors listed in section 1392(d) of the Internal Rev-
15 enue Code of 1986 (as added by this part),

16 (3) establishing recordkeeping requirements
17 necessary or appropriate to assist the studies re-
18 quired by subtitle E, and

19 (4) providing that State and local governments
20 shall have at least 30 days after such rules are pub-
21 lished to file applications for nominated areas before
22 such applications are evaluated and compared and
23 any area designated as a tax enterprise zone.

1 **Subtitle B—Redevelopment Bonds**
 2 **for Tax Enterprise Zones**

3 **SEC. 421. SPECIAL RULES FOR REDEVELOPMENT BONDS**
 4 **PROVIDING FINANCING FOR TAX ENTER-**
 5 **PRISE ZONES.**

6 (a) IN GENERAL.—Subsection (c) of section 144 of
 7 the Internal Revenue Code of 1986 (relating to qualified
 8 redevelopment bonds) is amended by adding at the end
 9 thereof the following new paragraph:

10 “(9) SPECIAL RULES FOR TAX ENTERPRISE
 11 ZONES.—For purposes of this subsection, in the case
 12 of bonds issued during the 60-month period begin-
 13 ning on the date a tax enterprise zone is des-
 14 ignated—

15 “(A) TREATMENT AS DESIGNATED
 16 BLIGHTED AREA.—Such tax enterprise zone
 17 shall be treated as a designated blighted area
 18 during such 60-month period (or, if shorter, the
 19 period such designation is in effect). Any area
 20 designated by reason of the preceding sentence
 21 shall not be taken into account in applying
 22 paragraph (4)(C).

23 “(B) SECURITY FOR BONDS.—The require-
 24 ments of paragraph (2)(B) shall be treated as
 25 met with respect to a financed area that is

1 within a tax enterprise zone if the general pur-
 2 pose governmental unit guarantees the payment
 3 of principal and interest on the issue either di-
 4 rectly or through insurance, a letter of credit,
 5 or a similar agreement but only if the cost
 6 thereof is financed other than with proceeds of
 7 any tax-exempt private activity bond or earn-
 8 ings on such proceeds.

9 “(C) EXPANSION OF REDEVELOPMENT
 10 PURPOSES.—

11 “(i) IN GENERAL.—The term ‘revel-
 12 opment purposes’ includes the making of
 13 loans to any enterprise zone business (as
 14 defined in section 1397B) for—

15 “(I) the acquisition of land with-
 16 in the tax enterprise zone for use in
 17 such business, or

18 “(II) the acquisition, construc-
 19 tion, reconstruction, or improvement
 20 by such business of land, or property
 21 of a character subject to the allowance
 22 for depreciation, for use in such busi-
 23 ness.

24 “(ii) \$2,500,000 LIMITATION.—Clause
 25 (i) shall apply to loans made to any enter-

1 prise zone business only if the aggregate
2 principal amount of such loans (whether or
3 not financed by the same issue) does not
4 exceed \$2,500,000. For purposes of the
5 preceding sentence, all persons treated as a
6 single employer under subsection (a) or (b)
7 of section 52 shall be treated as 1 person.

8 “(iii) LOANS MUST BE MADE WITHIN
9 18 MONTHS AFTER BONDS ISSUED; REPAY-
10 MENTS MUST BE USED FOR REDEMP-
11 TIONS.—Clause (i) shall apply only to
12 loans—

13 “(I) made during the 18-month
14 period beginning on the date of issu-
15 ance of the issue financing such loan,

16 “(II) repayments of principal on
17 which are used not later than the
18 close of the 1st semiannual period be-
19 ginning after the date the repayment
20 is received to redeem bonds which are
21 part of such issue, and

22 “(III) the effective rate of inter-
23 est on which does not exceed the yield
24 on the issue by more than 0.125 per-
25 centage points.

1 In determining the effective rate of interest
2 for purposes of subclause (III), there shall
3 be taken into account all fees, charges, and
4 other amounts (other than amounts for
5 any credit report) borne by the borrower
6 which are attributable to the loan or the
7 bond issue.

8 “(iv) HOUSING LOANS EXCLUDED.—
9 Clause (i) shall not apply to any loan to be
10 used directly or indirectly to provide resi-
11 dential real property.

12 “(v) COORDINATION WITH RESTRIC-
13 TIONS ON USE OF PROCEEDS.—Paragraphs
14 (6) and (8) shall apply notwithstanding
15 clause (i); except that in applying para-
16 graph (6), subsection (a)(8) shall be treat-
17 ed as not including a reference to a facility
18 the primary purpose of which is retail food
19 services.

20 “(D) ISSUER TO DESIGNATE AMOUNT OF
21 ISSUE TO BE USED FOR LOANS.—Subparagraph
22 (C) shall not apply with respect to any issue
23 unless the issuer designates before the date of
24 issuance the amount of the proceeds of such
25 issue which is to be used for loans to which

1 subparagraph (C)(i) applies. If such amount ex-
 2 ceeds the principal amount of loans to which
 3 subparagraph (C)(i) applies, an amount of pro-
 4 ceeds equal to such excess shall be used not
 5 later than the close of the 1st semiannual pe-
 6 riod beginning after the close of the 18-month
 7 period referred to in subparagraph (C)(iii) to
 8 redeem bonds which are part of such issue.

9 “(E) DE MINIMIS REDEMPTIONS NOT RE-
 10 QUIRED.—Subparagraphs (C)(iii) and (D) shall
 11 not be construed to require amounts of less
 12 than \$250,000 to be used to redeem bonds. The
 13 Secretary may by regulation treat related issues
 14 as 1 issue for purposes of the preceding sen-
 15 tence.

16 “(F) PENALTY.—

17 “(i) IN GENERAL.—In the case of
 18 property with respect to which financing
 19 was provided under this paragraph, if at
 20 any time during the 10-period beginning
 21 on the date such financing was provided—

22 “(I) such property ceases to be in
 23 use in an enterprise zone business (as
 24 defined in section 1397B), or

1 “(II) substantially all of the use
2 of such property ceases to be in a tax
3 enterprise zone,
4 there is hereby imposed on the trade or
5 business to which such financing was pro-
6 vided a penalty equal to 1.25 percent of so
7 much of the face amount of all financing
8 provided (whether or not from the same
9 issue and whether or not such issue is out-
10 standing) before such cessation to the
11 trade or business using such property.

12 “(ii) NO PENALTY BY REASON OF
13 ZONE TERMINATION.—No penalty shall be
14 imposed under clause (i) solely by reason
15 of the termination or revocation of a tax
16 enterprise zone designation.

17 “(iii) EXCEPTION FOR BANK-
18 RUPTCY.—Clause (i) shall not apply to any
19 cessation resulting from bankruptcy.”.

20 (b) VOLUME CAP ONLY CHARGED WITH 50 PER-
21 CENT OF TAX ENTERPRISE ZONE REDEVELOPMENT
22 BONDS.—Subsection (g) of section 146 of such Code is
23 amended by striking “and” at the end of paragraph (3),
24 by striking the period at the end of paragraph (4) and

1 inserting “, and”, and by adding at the end thereof the
 2 following new paragraph:

3 “(5) 50 percent of any qualified redevelopment
 4 bond issued—

5 “(A) as part of an issue 95 percent or
 6 more of the net proceeds of which are to be
 7 used for 1 or more redevelopment purposes (as
 8 defined in section 144(c)) in a tax enterprise
 9 zone, and

10 “(B) during the 60-month period begin-
 11 ning on the date of the designation of such
 12 zone.”.

13 (c) PENALTIES FOR LOANS MADE TO BUSINESSES
 14 THAT CEASE TO BE ENTERPRISE ZONE BUSINESSES,
 15 ETC.—Subsection (b) of section 150 of such Code is
 16 amended by adding at the end thereof the following new
 17 paragraph:

18 “(6) ENTERPRISE ZONE REDEVELOPMENT
 19 BONDS.—In the case of any financing provided by
 20 an issue the interest on which is exempt from tax by
 21 reason of section 144(c)(9)—

22 “(A) IN GENERAL.—No deduction shall be
 23 allowed under this chapter for interest on such
 24 financing which accrues during the period be-

ginning on the first day of the calendar year
which includes the date on which—

“(i) the trade or business to which the
financing was provided ceases to be an en-
terprise zone business (as defined in sec-
tion 1397B), or

“(ii) substantially all of the use of the
property (determined in accordance with
subchapter U) with respect to which the fi-
nancing was provided ceases to be in a tax
enterprise zone.

The preceding sentence shall not apply solely by
reason of the termination or revocation of a tax
enterprise zone designation.

“(B) EXCEPTION FOR BANKRUPTCY.—This
paragraph shall not apply to any cessation re-
sulting from bankruptcy.”.

Subtitle C—Credit for Contribu- tions to Certain Community De- velopment Corporations

SEC. 431. CREDIT FOR CONTRIBUTIONS TO CERTAIN COM- MUNITY DEVELOPMENT CORPORATIONS.

(a) IN GENERAL.—For purposes of section 38 of the
Internal Revenue Code of 1986, the current year business

1 credit shall include the credit determined under this sec-
2 tion.

3 (b) DETERMINATION OF CREDIT.—The credit deter-
4 mined under this section for each taxable year in the credit
5 period with respect to any qualified CDC contribution
6 made by the taxpayer is an amount equal to 5 percent
7 of such contribution.

8 (c) CREDIT PERIOD.—For purposes of this section,
9 the credit period with respect to any qualified CDC con-
10 tribution is the period of 10 taxable years beginning with
11 the taxable year during which such contribution was made.

12 (d) QUALIFIED CDC CONTRIBUTION.—For purposes
13 of this section—

14 (1) IN GENERAL.—The term “qualified CDC
15 contribution” means any transfer of cash—

16 (A) which is made to a selected community
17 development corporation during the 5-year pe-
18 riod beginning on the date such corporation was
19 selected for purposes of this section,

20 (B) the amount of which is available for
21 use by such corporation for at least 10 years,

22 (C) which is to be used by such corpora-
23 tion for qualified low-income assistance within
24 its operational area, and

1 (D) which is designated by such corpora-
2 tion for purposes of this section.

3 (2) LIMITATIONS ON AMOUNT DESIGNATED.—

4 The aggregate amount of contributions to a selected
5 community development corporation which may be
6 designated by such corporation shall not exceed
7 \$2,000,000.

8 (e) SELECTED COMMUNITY DEVELOPMENT COR-
9 PORATIONS.—

10 (1) IN GENERAL.—For purposes of this section,
11 the term “selected community development corpora-
12 tion” means any corporation—

13 (A) which is described in section 501(c)(3)
14 of such Code and exempt from tax under sec-
15 tion 501(a) of such Code,

16 (B) the principal purposes of which include
17 promoting employment of, and business oppor-
18 tunities for, low-income individuals who are
19 residents of the operational area, and

20 (C) which is selected by the Secretary of
21 Housing and Urban Development for purposes
22 of this section.

23 (2) ONLY 10 CORPORATIONS MAY BE SE-
24 LECTED.—

1 (A) IN GENERAL.—The Secretary of Hous-
2 ing and Urban Development may select 10 cor-
3 porations for purposes of this section, subject to
4 the availability of eligible corporations. Such se-
5 lections may be made only before January 1,
6 1995. At least 4 of the operational areas of the
7 corporations selected must be rural areas (as
8 defined by section 1393(6) of such Code).

9 (B) PRIORITY OF DESIGNATIONS.—In se-
10 lecting corporations for purposes of this section,
11 such Secretary shall give priority to corpora-
12 tions with a demonstrated record of perform-
13 ance in administering community development
14 programs which target at least 75 percent of
15 the jobs emanating from their investment funds
16 to low income or unemployed individuals.

17 (3) OPERATIONAL AREAS MUST HAVE CERTAIN
18 CHARACTERISTICS.—A corporation may be selected
19 for purposes of this section only if its operational
20 area meets the following criteria:

21 (A) The area meets the size requirements
22 under paragraph (1)(C) or (2)(C) of section
23 1391(b) which would apply if such area were to
24 be designated as a tax enterprise zone.

1 (B) The unemployment rate (as deter-
 2 mined by the appropriate available data) is not
 3 less than the national unemployment rate.

4 (C) The median family income of residents
 5 of such area does not exceed 80 percent of the
 6 median gross income of residents of the juris-
 7 diction of the local government which includes
 8 such area.

9 (f) QUALIFIED LOW-INCOME ASSISTANCE.—For pur-
 10 poses of this section, the term “qualified low-income as-
 11 sistance” means assistance—

12 (1) which is designed to provide employment of,
 13 and business opportunities for, low-income individ-
 14 uals who are residents of the operational area of the
 15 community development corporation, and

16 (2) which is approved by the Secretary of Hous-
 17 ing and Urban Development.

18 **Subtitle D—Indian Employment** 19 **and Investment**

20 **SEC. 441. INVESTMENT TAX CREDIT FOR PROPERTY ON IN-** 21 **DIAN RESERVATIONS.**

22 (a) ALLOWANCE OF INDIAN RESERVATION CRED-
 23 IT.—Section 46 of the Internal Revenue Code of 1986 (re-
 24 lating to investment credits) is amended by striking “and”
 25 at the end of paragraph (2), by striking the period at the

1 end of paragraph (3) and inserting “, and”, and by adding
 2 after paragraph (3) the following new paragraph:

3 “(4) the Indian reservation credit.”.

4 (b) AMOUNT OF INDIAN RESERVATION CREDIT.—

5 (1) IN GENERAL.—Section 48 of such Code (re-
 6 lating to the energy credit and the reforestation
 7 credit) is amended by adding after subsection (b)
 8 the following new subsection:

9 “(c) INDIAN RESERVATION CREDIT.—

10 “(1) IN GENERAL.—For purposes of section 46,
 11 the Indian reservation credit for any taxable year is
 12 the Indian reservation percentage of the qualified in-
 13 vestment in qualified Indian reservation property
 14 placed in service during such taxable year, deter-
 15 mined in accordance with the following table:

“In the case of qualified

Indian reservation property which is:	The Indian reservation percentage is:
Reservation personal property	10
New reservation construction property	15
Reservation infrastructure investment	15.

16 “(2) QUALIFIED INVESTMENT IN QUALIFIED
 17 INDIAN RESERVATION PROPERTY DEFINED.—For
 18 purposes of this subpart—

19 “(A) IN GENERAL.—The term ‘qualified
 20 Indian reservation property’ means property—

21 “(i) which is—

1 “(I) reservation personal prop-
2 erty,

3 “(II) new reservation construc-
4 tion property, or

5 “(III) reservation infrastructure
6 investment, and

7 “(ii) not acquired (directly or indi-
8 rectly) by the taxpayer from a person who
9 is related to the taxpayer (within the
10 meaning of section 465(b)(3)(C)).

11 The term ‘qualified Indian reservation property’
12 does not include any property (or any portion
13 thereof) placed in service for purposes of con-
14 ducting or housing class I, II, or III gaming (as
15 defined in section 4 of the Indian Regulatory
16 Act (25 U.S.C. 2703)).

17 “(B) QUALIFIED INVESTMENT.—The term
18 ‘qualified investment’ means—

19 “(i) in the case of reservation infra-
20 structure investment, the amount expended
21 by the taxpayer for the acquisition or con-
22 struction of the reservation infrastructure
23 investment; and

1 “(ii) in the case of all other qualified
 2 Indian reservation property, the tax-
 3 payer’s basis for such property.

4 “(C) RESERVATION PERSONAL PROP-
 5 ERTY.—The term ‘reservation personal prop-
 6 erty’ means qualified personal property which is
 7 used by the taxpayer predominantly in the ac-
 8 tive conduct of a trade or business within an
 9 Indian reservation. Property shall not be treat-
 10 ed as ‘reservation personal property’ if it is
 11 used or located outside the Indian reservation
 12 on a regular basis.

13 “(D) QUALIFIED PERSONAL PROPERTY.—
 14 The term ‘qualified personal property’ means
 15 property—

16 “(i) for which depreciation is allow-
 17 able under section 168,

18 “(ii) which is not—

19 “(I) nonresidential real property,

20 “(II) residential rental property,

21 or

22 “(III) real property which is not
 23 described in (I) or (II) and which has
 24 a class life of more than 12.5 years.

1 For purposes of this subparagraph, the terms
2 ‘nonresidential real property’, ‘residential rental
3 property’, and ‘class life’ have the respective
4 meanings given such terms by section 168.

5 “(E) NEW RESERVATION CONSTRUCTION
6 PROPERTY.—The term ‘new reservation con-
7 struction property’ means qualified real prop-
8 erty—

9 “(i) which is located in an Indian res-
10 ervation,

11 “(ii) which is used by the taxpayer
12 predominantly in the active conduct of a
13 trade or business within an Indian reserva-
14 tion, and

15 “(iii) which is originally placed in
16 service by the taxpayer.

17 “(F) QUALIFIED REAL PROPERTY.—The
18 term ‘qualified real property’ means property
19 for which depreciation is allowable under sec-
20 tion 168 and which is described in clause (I),
21 (II), or (III) of subparagraph (D)(ii).

22 “(G) RESERVATION INFRASTRUCTURE IN-
23 VESTMENT.—

24 “(i) IN GENERAL.—The term ‘reserva-
25 tion infrastructure investment’ means

1 qualified personal property or qualified real
2 property which—

3 “(I) benefits the tribal infrastruc-
4 ture,

5 “(II) is available to the general
6 public, and

7 “(III) is placed in service in con-
8 nection with the taxpayer’s active con-
9 duct of a trade or business within an
10 Indian reservation.

11 “(ii) PROPERTY MAY BE LOCATED
12 OUTSIDE THE RESERVATION.—Qualified
13 personal property and qualified real prop-
14 erty used or located outside an Indian res-
15 ervation shall be reservation infrastructure
16 investment only if its purpose is to connect
17 to existing tribal infrastructure in the res-
18 ervation, and shall include, but not be lim-
19 ited to, roads, power lines, water systems,
20 railroad spurs, and communications facili-
21 ties.

22 “(H) COORDINATION WITH OTHER CRED-
23 ITS.—The term ‘qualified Indian reservation
24 property’ shall not include any property with re-

1 spect to which the energy credit or the rehabili-
2 tation credit is allowed.

3 “(3) REAL ESTATE RENTALS.—For purposes of
4 this section, the rental to others of real property lo-
5 cated within an Indian reservation shall be treated
6 as the active conduct of a trade or business in an
7 Indian reservation.

8 “(4) INDIAN RESERVATION DEFINED.—For
9 purposes of this subpart, the term ‘Indian reserva-
10 tion’ means a reservation, as defined in—

11 “(A) section 3(d) of the Indian Financing
12 Act of 1974 (25 U.S.C. 1452(d)), or

13 “(B) section 4(10) of the Indian Child
14 Welfare Act of 1978 (25 U.S.C. 1903(10)).

15 “(5) LIMITATION BASED ON UNEMPLOY-
16 MENT.—

17 “(A) GENERAL RULE.—The Indian res-
18 ervation credit allowed under section 46 for any
19 taxable year shall equal—

20 “(i) if the Indian unemployment rate
21 on the applicable Indian reservation for
22 which the credit is sought exceeds 300 per-
23 cent of the national average unemployment
24 rate at any time during the calendar year
25 in which the property is placed in service

1 or during the immediately preceding 2 cal-
2 endar years, 100 percent of such credit,

3 “(ii) if such Indian unemployment
4 rate exceeds 150 percent but not 300 per-
5 cent, 50 percent of such credit, and

6 “(iii) if such Indian unemployment
7 rate does not exceed 150 percent, 0 per-
8 cent of such credit.

9 “(B) SPECIAL RULE FOR LARGE
10 PROJECTS.—In the case of a qualified Indian
11 reservation property which has (or is a compo-
12 nent of a project which has) a projected con-
13 struction period of more than 2 years or a cost
14 of more than \$1,000,000, subparagraph (A)
15 shall apply by substituting ‘during the earlier of
16 the calendar year in which the taxpayer enters
17 into a binding agreement to make a qualified
18 investment or the first calendar year in which
19 the taxpayer has expended at least 10 percent
20 of the taxpayer’s qualified investment, or the
21 preceding calendar year’ for ‘during the cal-
22 endar year in which the property is placed in
23 service or during the immediately preceding 2
24 calendar years’.

1 “(C) DETERMINATION OF INDIAN UNEM-
 2 PLOYMENT.—For purposes of this paragraph,
 3 with respect to any Indian reservation, the In-
 4 dian unemployment rate shall be based upon
 5 Indians unemployed and able to work, and shall
 6 be certified by the Secretary of the Interior.

7 “(6) COORDINATION WITH NONREVENUE
 8 LAWS.—Any reference in this subsection to a provi-
 9 sion not contained in this title shall be treated for
 10 purposes of this subsection as a reference to such
 11 provision as in effect on the date of the enactment
 12 of this paragraph.”.

13 (2) LODGING TO QUALIFY.—Paragraph (2) of
 14 section 50(b) of such Code (relating to property used
 15 for lodging) is amended—

16 (A) by striking “and” at the end of sub-
 17 paragraph (C),

18 (B) by striking the period at the end of
 19 subparagraph (D) and inserting “; and” and

20 (C) by adding at the end thereof the fol-
 21 lowing subparagraph:

22 “(E) new reservation construction prop-
 23 erty.”.

24 (c) RECAPTURE.—Subsection (a) of section 50 of
 25 such Code (relating to recapture in case of dispositions,

1 etc.), is amended by adding at the end thereof the follow-
 2 ing new paragraph:

3 “(6) SPECIAL RULES FOR INDIAN RESERVATION
 4 PROPERTY.—

5 “(A) IN GENERAL.—If, during any taxable
 6 year, property with respect to which the tax-
 7 payer claimed an Indian reservation credit—

8 “(i) is disposed of, or

9 “(ii) in the case of reservation per-
 10 sonal property—

11 “(I) otherwise ceases to be in-
 12 vestment credit property with respect
 13 to the taxpayer, or

14 “(II) is removed from the Indian
 15 reservation, converted or otherwise
 16 ceases to be Indian reservation prop-
 17 erty,

18 the tax under this chapter for such taxable year
 19 shall be increased by the amount described in
 20 subparagraph (B).

21 “(B) AMOUNT OF INCREASE.—The in-
 22 crease in tax under subparagraph (A) shall
 23 equal the aggregate decrease in the credits al-
 24 lowed under section 38 by reason of section
 25 48(c) for all prior taxable years which would

1 have resulted had the qualified investment
 2 taken into account with respect to the property
 3 been limited to an amount which bears the
 4 same ratio to the qualified investment with re-
 5 spect to such property as the period such prop-
 6 erty was held by the taxpayer bears to the ap-
 7 plicable recovery period under section 168(g).

8 “(C) COORDINATION WITH OTHER RECAP-
 9 TURE PROVISIONS.—In the case of property to
 10 which this paragraph applies, paragraph (1)
 11 shall not apply and the rules of paragraphs (3),
 12 (4), and (5) shall apply.”.

13 (d) BASIS ADJUSTMENT TO REFLECT INVESTMENT
 14 CREDIT.—Paragraph (3) of section 50(c) of such Code
 15 (relating to basis adjustment to investment credit prop-
 16 erty) is amended by striking “energy credit or reforest-
 17 ation credit” and inserting “energy credit, reforestation
 18 credit or Indian reservation credit other than with respect
 19 to any expenditure for new reservation construction prop-
 20 erty”.

21 (e) CERTAIN GOVERNMENTAL USE PROPERTY TO
 22 QUALIFY.—Paragraph (4) of section 50(b) of such Code
 23 (relating to property used by governmental units or for-
 24 eign persons or entities) is amended by redesignating sub-
 25 paragraphs (D) and (E) as subparagraphs (E) and (F),

(f) APPLICATION OF AT-RISK RULES.—Subpara-
graph (C) of section 49(a)(1) of such Code is amended
by striking “and” at the end of clause (ii), by striking
the period at the end of clause (iii) and inserting “, and”,
and by adding at the end the following new clause:

15 (g) CLERICAL AMENDMENTS.—

(2) The table of sections for subpart E of part IV of subchapter A of chapter 1 of such Code is amended by striking out the item relating to section 48 and inserting the following:

•S 102 IS

1 (h) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to property placed in service after
 3 December 31, 1993.

4 **SEC. 442. INDIAN EMPLOYMENT CREDIT.**

5 (a) ALLOWANCE OF INDIAN EMPLOYMENT CRED-
 6 IT.—Section 38(b) of the Internal Revenue Code of 1986
 7 (relating to general business credits), as amended by sec-
 8 tion 412, is amended by striking “plus” at the end of
 9 paragraph (7), by striking the period at the end of para-
 10 graph (8) and inserting “, plus”, and by adding after
 11 paragraph (8) the following new paragraph:

12 “(9) the Indian employment credit as deter-
 13 mined under section 45(a).”.

14 (b) AMOUNT OF INDIAN EMPLOYMENT CREDIT.—
 15 Subpart D of Part IV of subchapter A of chapter 1 of
 16 such Code (relating to business related credits) is amended
 17 by adding at the end thereof the following new section:

18 **“SEC. 45. INDIAN EMPLOYMENT CREDIT.**

19 “(a) AMOUNT OF CREDIT.—

20 “(1) IN GENERAL.—For purposes of section 38,
 21 the amount of the Indian employment credit deter-
 22 mined under this section with respect to any em-
 23 ployer for any taxable year is 10 percent (30 percent
 24 in the case of an employer with at least 85 percent

1 Indian employees throughout the taxable year) of
2 the sum of—

3 “(A) the qualified wages paid or incurred
4 during such taxable year, plus

5 “(B) qualified employee health insurance
6 costs paid or incurred during such taxable year.

7 In no event shall the amount of the Indian employ-
8 ment credit for any taxable year exceed the credit
9 limitation amount determined under subsection (e)
10 for such taxable year.

11 “(2) INDIAN EMPLOYEE.—For purposes of
12 paragraph (1), the term ‘Indian employee’ means an
13 employee who is an enrolled member of an Indian
14 tribe or the spouse of such a member.

15 “(b) QUALIFIED WAGES; QUALIFIED EMPLOYEE
16 HEALTH INSURANCE COSTS.—For purposes of this sec-
17 tion—

18 “(1) QUALIFIED WAGES.—

19 “(A) IN GENERAL.—The term ‘qualified
20 wages’ means any wages paid or incurred by an
21 employer for services performed by an employee
22 while such employee is a qualified employee.

23 “(B) COORDINATION WITH TARGETED
24 JOBS CREDIT.—The term ‘qualified wages’ shall
25 not include wages attributable to service ren-

1 dered during the 1-year period beginning with
2 the day the individual begins work for the em-
3 ployer if any portion of such wages is taken
4 into account in determining the credit under
5 section 51.

6 “(2) QUALIFIED EMPLOYEE HEALTH INSUR-
7 ANCE COSTS.—

8 “(A) IN GENERAL.—The term ‘qualified
9 employee health insurance costs’ means any
10 amount paid or incurred by an employer for
11 health insurance to the extent such amount is
12 attributable to coverage provided to any em-
13 ployee while such employee is a qualified em-
14 ployee.

15 “(B) EXCEPTION FOR AMOUNTS PAID
16 UNDER SALARY REDUCTION ARRANGEMENTS.—
17 No amount paid or incurred for health insur-
18 ance pursuant to a salary reduction arrange-
19 ment shall be taken into account under sub-
20 paragraph (A).

21 “(c) QUALIFIED EMPLOYEE.—For purposes of this
22 section—

23 “(1) IN GENERAL.—Except as otherwise pro-
24 vided in this subsection, the term ‘qualified em-

1 employee’ means, with respect to any period, any em-
2 ployee of an employer if—

3 “(A) substantially all of the services per-
4 formed during such period by such employee for
5 such employer are performed within an Indian
6 reservation,

7 “(B) the principal place of abode of such
8 employee while performing such services is on
9 or near the reservation in which the services are
10 performed, and

11 “(C) the employee began work for such
12 employer on or after January 1, 1993.

13 “(2) CREDIT ALLOWED ONLY FOR FIRST 7
14 YEARS.—An employee shall not be treated as a
15 qualified employee for any period after the date 7
16 years after the day on which such employee first
17 began work for the employer.

18 “(3) INDIVIDUALS RECEIVING WAGES IN EX-
19 CESS OF \$30,000 NOT ELIGIBLE.—An employee shall
20 not be treated as a qualified employee for any tax-
21 able year of the employer if the total amount of the
22 wages paid or incurred by such employer to such
23 employee during such taxable year (whether or not
24 for services within an Indian reservation) exceeds
25 the amount determined at an annual rate of

1 \$30,000. The Secretary shall adjust the \$30,000
2 amount contained in the preceding sentence for
3 years beginning after 1993 at the same time and in
4 the same manner as under section 415(d).

5 “(4) EMPLOYMENT MUST BE TRADE OR BUSI-
6 NESS EMPLOYMENT.—An employee shall be treated
7 as a qualified employee for any taxable year of the
8 employer only if more than 50 percent of the wages
9 paid or incurred by the employer to such employee
10 during such taxable year are for services performed
11 in a trade or business of the employer. Any deter-
12 mination as to whether the preceding sentence ap-
13 plies with respect to any employee for any taxable
14 year shall be made without regard to subsection
15 (f)(2).

16 “(5) CERTAIN EMPLOYEES NOT ELIGIBLE.—
17 The term ‘qualified employee’ shall not include—

18 “(A) any individual described in subpara-
19 graph (A), (B), or (C) of section 51(i)(1),

20 “(B) any 5-percent owner (as defined in
21 section 416(i)(1)(B)),

22 “(C) any individual who is neither an en-
23 rolled member of an Indian tribe nor the spouse
24 of an enrolled member of an Indian tribe, and

1 “(D) any individual if the services per-
2 formed by such individual for the employer in-
3 volve the conduct of class I, II, or III gaming
4 as defined in section 4 of the Indian Gaming
5 Regulatory Act (25 U.S.C. 2703), or are per-
6 formed in a building housing such gaming ac-
7 tivity.

8 “(6) INDIAN TRIBE DEFINED.—The term ‘In-
9 dian tribe’ means any Indian tribe, band, nation,
10 pueblo, or other organized group or community, in-
11 cluding any Alaska Native village, or regional or vil-
12 lage corporation, as defined in, or established pursu-
13 ant to, the Alaska Native Claims Settlement Act (43
14 U.S.C. 1601 et seq.) which is recognized as eligible
15 for the special programs and services provided by
16 the United States to Indians because of their status
17 as Indians.

18 “(7) INDIAN RESERVATION DEFINED.—The
19 term ‘Indian reservation’ means a reservation, as de-
20 fined in—

21 “(A) section 3(d) of the Indian Financing
22 Act of 1974 (25 U.S.C. 1452(d)), or

23 “(B) section 4(10) of the Indian Child
24 Welfare Act of 1978 (25 U.S.C. 1903 (10)).

1 “(d) EARLY TERMINATION OF EMPLOYMENT BY EM-
2 PLOYER.—

3 “(1) IN GENERAL.—If the employment of any
4 employee is terminated by the taxpayer before the
5 day 1 year after the day on which such employee
6 began work for the employer—

7 “(A) no wages (or qualified employee
8 health insurance costs) with respect to such em-
9 ployee shall be taken into account under sub-
10 section (a) for the taxable year in which such
11 employment is terminated, and

12 “(B) the tax under this chapter for the
13 taxable year in which such employment is ter-
14 minated shall be increased by the aggregate
15 credits (if any) allowed under section 38(a) for
16 prior taxable years by reason of wages (or
17 qualified employee health insurance costs) taken
18 into account with respect to such employee.

19 “(2) CARRYBACKS AND CARRYOVERS AD-
20 JUSTED.—In the case of any termination of employ-
21 ment to which paragraph (1) applies, the carrybacks
22 and carryovers under section 39 shall be properly
23 adjusted.

24 “(3) SUBSECTION NOT TO APPLY IN CERTAIN
25 CASES.—

1 “(A) IN GENERAL.—Paragraph (1) shall
2 not apply to—

3 “(i) a termination of employment of
4 an employee who voluntarily leaves the em-
5 ployment of the taxpayer,

6 “(ii) a termination of employment of
7 an individual who before the close of the
8 period referred to in paragraph (1) be-
9 comes disabled to perform the services of
10 such employment unless such disability is
11 removed before the close of such period
12 and the taxpayer fails to offer reemploy-
13 ment to such individual, or

14 “(iii) a termination of employment of
15 an individual if it is determined under the
16 applicable State unemployment compensa-
17 tion law that the termination was due to
18 the misconduct of such individual.

19 “(B) CHANGES IN FORM OF BUSINESS.—
20 For purposes of paragraph (1), the employment
21 relationship between the taxpayer and an em-
22 ployee shall not be treated as terminated—

23 “(i) by a transaction to which section
24 381(a) applies if the employee continues to

1 be employed by the acquiring corporation,
2 or

3 “(ii) by reason of a mere change in
4 the form of conducting the trade or busi-
5 ness of the taxpayer if the employee con-
6 tinues to be employed in such trade or
7 business and the taxpayer retains a sub-
8 stantial interest in such trade or business.

9 “(4) SPECIAL RULE.—Any increase in tax
10 under paragraph (1) shall not be treated as a tax
11 imposed by this chapter for purposes of—

12 “(A) determining the amount of any credit
13 allowable under this chapter, and

14 “(B) determining the amount of the tax
15 imposed by section 55.

16 “(e) CREDIT LIMITATION AMOUNT.—For purposes of
17 this section—

18 “(1) CREDIT LIMITATION AMOUNT.—The credit
19 limitation amount for a taxable year shall be an
20 amount equal to the credit rate (10 or 30 percent
21 as determined under subsection (a)) multiplied by
22 the increased credit base.

23 “(2) INCREASED CREDIT BASE.—The increased
24 credit base for a taxable year shall be the excess
25 of—

1 “(A) the sum of any qualified wages and
2 qualified employee health insurance costs paid
3 or incurred by the employer during the taxable
4 year with respect to employees whose wages
5 (paid or incurred by the employer) during the
6 taxable year do not exceed the amount deter-
7 mined under paragraph (3) of subsection (c),
8 over

9 “(B) the sum of any qualified wages and
10 qualified employee health insurance costs paid
11 or incurred by the employer (or any prede-
12 cessor) during calendar year 1993 with respect
13 to employees whose wages (paid or incurred by
14 the employer or any predecessor) during 1993
15 did not exceed \$30,000.

16 “(3) SPECIAL RULE FOR SHORT TAXABLE
17 YEARS.—For any taxable year having less than 12
18 months—

19 “(A) the amounts paid or incurred by the
20 employer shall be annualized for purposes of de-
21 termining the increased credit base, and

22 “(B) the credit limitation amount shall be
23 multiplied by a fraction, the numerator of which
24 is the number of days in the taxable year and
25 the denominator of which is 365.

1 “(f) OTHER DEFINITIONS AND SPECIAL RULES.—

2 For purposes of this section—

3 “(1) WAGES.—The term ‘wages’ has the same
4 meaning given to such term in section 51.

5 “(2) CONTROLLED GROUPS.—

6 “(A) All employers treated as a single em-
7 ployer under section (a) or (b) of section 52
8 shall be treated as a single employer for pur-
9 poses of this section.

10 “(B) The credit (if any) determined under
11 this section with respect to each such employer
12 shall be its proportionate share of the wages
13 and qualified employee health insurance costs
14 giving rise to such credit.

15 “(3) CERTAIN OTHER RULES MADE APPLICA-
16 BLE.—Rules similar to the rules of section 51(k)
17 and subsections (c), (d), and (e) of section 52 shall
18 apply.

19 “(4) COORDINATION WITH NONREVENUE
20 LAWS.—Any reference in this section to a provision
21 not contained in this title shall be treated for pur-
22 poses of this section as a reference to such provision
23 as in effect on the date of the enactment of this
24 paragraph.”.

1 (c) DENIAL OF DEDUCTION FOR PORTION OF WAGES
 2 EQUAL TO INDIAN EMPLOYMENT CREDIT.—

3 (1) Subsection (a) of section 280C of such Code
 4 (relating to rule for targeted jobs credit) is amended
 5 by striking “51(a)” and inserting “45(a), 51(a),
 6 and”.

7 (2) Subsection (c) of section 196 of such Code
 8 (relating to deduction for certain unused business
 9 credits) is amended by striking “and” at the end of
 10 paragraph (5), by striking the period at the end of
 11 paragraph (6) and inserting “, and”, and by adding
 12 at the end the following new paragraph:

13 “(7) the Indian employment credit determined
 14 under section 45(a).”.

15 (d) DENIAL OF CARRYBACKS TO PREENACTMENT
 16 YEARS.—Subsection (d) of section 39 of such Code is
 17 amended by adding at the end thereof the following new
 18 paragraph:

19 “(4) NO CARRYBACK OF SECTION 45 CREDIT
 20 BEFORE ENACTMENT.—No portion of the unused
 21 business credit for any taxable year which is attrib-
 22 utable to the Indian employment credit determined
 23 under section 45 may be carried to a taxable year
 24 ending before the date of the enactment of section
 25 45.”.

1 (e) CLERICAL AMENDMENT.—The table of sections
 2 for subpart D of part IV of subchapter A of chapter 1
 3 of such Code is amended by adding at the end thereof
 4 the following:

“Sec. 45. Indian employment credit.”.

5 (f) EFFECTIVE DATE.—The amendments made by
 6 this section shall apply to wages paid or incurred after
 7 December 31, 1993.

8 **Subtitle E—Study**

9 **SEC. 451. STUDY OF EFFECTIVENESS OF TAX ENTERPRISE** 10 **ZONE INCENTIVES.**

11 (a) IN GENERAL.—The Secretary of the Treasury, in
 12 consultation with the appropriate Secretary (as defined in
 13 section 1393(7) of the Internal Revenue Code of 1986,
 14 as added by this title), shall contract within 3 months of
 15 the date of the enactment of this Act, with the National
 16 Academy of Sciences (hereafter in this section referred to
 17 as the “Academy”) to conduct a study of the relative effec-
 18 tiveness of the incentives provided by this title in achieving
 19 the purposes of such title in tax enterprise zones.

20 (b) CONDUCT OF STUDY.—If the Academy contracts
 21 for the conduct of the study described in subsection (a),
 22 the Academy shall develop a study methodology and shall
 23 oversee and manage the conduct of such study.

24 (c) REPORTS.—The Academy shall submit to the
 25 Committee on Ways and Means of the House of Rep-

1 representatives and the Committee on Finance of the Sen-
2 ate—

3 (1) not later than July 1, 1997, an interim re-
4 port setting forth the findings as a result of such
5 study, and

6 (2) not later than July 1, 2002, a final report
7 setting forth the findings as a result of such study.

8 **TITLE V—WORKFARE**

9 **SEC. 501. DEVELOPMENT OF A COMPREHENSIVE LEGISLA-** 10 **TIVE PROPOSAL REQUIRING ADULTS RECEIV-** 11 **ING AFDC TO ENTER THE WORKFORCE.**

12 (a) IN GENERAL.—The Secretary of Labor (herein-
13 after referred to as the “Secretary”), in consultation with
14 the Secretary of Health and Human Services shall develop
15 a comprehensive legislative proposal which would require
16 adults receiving aid to families with dependent children
17 under title IV of the Social Security Act (hereinafter re-
18 ferred to as “AFDC”) to enter the workforce within two
19 years of receiving such aid.

20 (b) SPECIFIC MATTERS TO BE INCLUDED.—The
21 proposal developed pursuant to subsection (a) shall include
22 plans—

23 (1) for education, training, and child care which
24 would permit adults receiving AFDC to gain the
25 skills necessary to become financially independent;

1 (2) to assist adults receiving AFDC in finding
2 employment in the private sector; and

3 (3) providing for placement in meaningful com-
4 munity service jobs for those adults receiving AFDC
5 who cannot find employment in the private sector.

6 (c) REPORT.—No later than one hundred days after
7 January 20, 1993, the Secretary shall submit the proposal
8 developed pursuant to subsection (a) to the Congress.

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S 102 IS——2

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